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U.S. EXPORT MARKET SHARE

HEARING

BEFORE THE

SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

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WEDNESDAY, AUGUST 1, 2001

U.S. SENATE,
SUBCOMMITTEE ON PRODUCTION AND PRICE
COMPETITIVENESS, OF THE COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:02 a.m., in room SR–328A, Russell Senate Office Building, Hon. Kent Conrad, (chairman of the subcommittee), presiding.

Present or submitting a statement: Senators Conrad, Lincoln, Cochran, and Roberts.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. The subcommittee will come to order. We have a beautiful day. No doubt some would prefer to be outdoors today. I might prefer to be outdoors today. We have an important subject before the subcommittee.

I especially want to acknowledge the presence of the Senator from Kansas, who has been such a leader on all of these issues. It is good to have him here with us.

Welcome to the witnesses; it is good to have you here.

The subcommittee meets this morning to examine the issue of the United States share of world agricultural trade. We want to put the spotlight on U.S. market share for a number of reasons.

First, traditionally, the Department of Agriculture has measured the export success of U.S. agriculture on the basis of the dollar value of the exports, and sets its export goals accordingly. In the mid 1990's, for example, USDA established the goal of $65 billion of U.S. exports by the year 2000, a goal we did not achieve. Although the focus on the dollar value of exports is helpful, it does not tell the whole story. For example, it is quite possible that even though the value and volume of exports may rise, we may be slipping in terms of the U.S. share of world agricultural trade if world trade is increasing faster than our own exports. To illustrate this point, let us take a look at a few charts.

Earlier this year I wrote to the Department's chief economist, Keith Collins, noting that USDA's 10-year baseline projections generally forecast steadily rising exports for most of our major commodities. I asked him if those projections of rising exports translated into increasing U.S. market share. Unfortunately, for most of our commodities, it does not.

Take the case of corn. Let's go to that. We can see that the pattern is very clear. The volumes have been increasing, but U.S. market share has been slipping. Seems to me that that ought to alert us to a long-term problem. USDA projects in corn that export volume will rise over the next 10 years. However, even as our exports increase by about 400 million bushels, our share of world corn trade will fall from 80 percent today to about 72 percent. In the case of soybeans, our exports are projected to increase by 100 million bushels, but our market share will slip by about 3 points. If you just concentrate on volume, it looks pretty good. If you measure it a different way, in terms of market share, again, we are losing ground. In the case of rice—let's go to that chart—the bad news is that both our export volume and our market share is expected to drop and drop significantly over the next 10 years. Look at that pattern. Both volumes and market share in steep decline.

Let me emphasize the point. Even if USDA's projections of rising exports for most commodities come about, the fact is that U.S. export market share for many of these same commodities will continue to decline. In other words, we are not expected to keep up with what we hope will be a rising tide of world trade. I find that an unacceptable circumstance.

Unfortunately, as this next chart shows, U.S. market share has generally been declining for the past 20 years. Here you can see where we are. We are the tan line. Well, this is the strategic goal. We had a strategic goal of being at, you can see, 22 percent, and you can see we are well below the strategic goal in market share.

Let's go to that next chart as well, Tim. This shows what is happening with our major competitors. We are the yellow line. The EU is the green line. The Cairns Group is the red line. I would suggest to you it is not a pretty picture. We saw back in the 1980's a really dramatic turn where our market share dropped, the EU's market share increased dramatically, the Cairns Group has continued to increase, and, it seems to me this really is at the heart of a problem we ought to be discussing in terms of a strategy and a policy.

I hope to accomplish three things with today's hearing. First, I hope to be reassured that the Department and the industry are sufficiently focused on the issue of market share. Does the Department and industry, for example, have the information we need to assess whether we have been gaining or losing market share as we look at U.S. exports in terms of individual commodities and a country-by-country basis?

Second, once we are confident that we have the market share data we need, we need to fully assess who is winning and who is losing in the marketplace and why. For example, we talk about the U.S. continuing to lose market share, the European Union has been maintaining its position, while the Cairns Group, including Canada and Australia, have been increasing theirs.

Let's go to the chart of what our major competitors, the Europeans, are doing that might be influencing the outcomes here. I have used this chart before, but to me it sends a very clear signal. This chart shows world agricultural export subsidies. The blue part of the chart is Europe. They account for nearly 84 percent of all world agricultural export subsidy. The U.S. share is that little thin red slice, 2.7 percent. The Europeans are outgunning us here 30 to

1, 30 to 1. We wonder why they have gained ground and we have lost ground. To me, it is about as clear as it can be. No magic here. They have been winning markets the old-fashioned way. They have been going out and buying these markets. That is what they are up to. We need to understand that, and I believe we need to fight back.

Finally, as I say, we must determine the steps we need to take, either in the Farm Bill, through trade policy initiatives or in some other ways, to expand U.S. market share.

At this point I would like to recognize our ranking member, Senator Roberts, for any statement that he might make and to thank him for being here, and thank him for his leadership. He has been intensely focused on agricultural issues for his entire career, and we appreciate his determination and persistence to make certain that the United States does not lose in this global competition.

STATEMENT OF HON. PAT ROBERTS, A U.S. SENATOR FROM KANSAS

Senator ROBERTS. Thank you, Mr. Chairman. Thank you for your very kind comments, and I will endeavor to live up to that very fine introduction. I want to thank you for holding this hearing. I am struck by the fact that we have very fine attendance. We are substituting quality for quantity, but that in terms of this issue it has certainly full-committee bearing, certainly a bearing on the full Congress.

Any time you have a situation where our farmers and ranchers must export a third to half of their produce or their productivity, their wherewithal, the miracle of agricultural, and yet over the last three years we have seen declining exports and a declining market share, you are in a world of trouble. We talk about emergency Farm Bill assistance, where that is, how much is enough. Basically, if you do not sell the product, you are going to experience these kinds of problems. It is at the heart of many of the issues that face agriculture today, and as you go down and give a farm speech, whether it be North Dakota or Kansas or anywhere in the country, one of the things that you always mention in your speech, either No. 1 or No. 2, is that we need a consistent and aggressive export policy. There are some of us who have been rather critical of the amount of funding and the amount of innovative thinking, and the amount of out-of-the-box thinking and recommendations that we need to become competitive.

The chairman has stated very well our export market share, which has slipped from 24 percent in the early 1980's, I have had the privilege of serving in the House and the Senate, been through six Farm Bills, and during those early Farm Bills, Mr. Chairman, we were around 24 percent, as your chart has indicated. It is about 18 percent today, and obviously that has contributed a great deal to the economic hardship that we have experienced in farm country.

Simply put, Mr. Chairman, business as usual is not going to improve our export market share and our farm prices. We cannot afford business as usual. We are going to have to become much more aggressive in our pursuit of international markets. It is an increasingly competitive world. I know in talking to one of the presidents

of the wheat growers several years ago, at their annual convention, he said, “Pat, we have to start taking a gun to a knife fight.” Now, he was from out West, and so he was using a little harsh language, but that indicates the feeling on the part of many of our commodity groups and our farm organizations, and that has been promised by virtually everyone that has the privilege of representing agriculture, regardless of which party that they represent.

We held a hearing a year ago in this subcommittee on this very subject. I had the privilege of being the Chair, along with Bob Kerrey, the distinguished Senator from Nebraska, who is the ranking member. We had an individual, who at that time was the administrator of the Foreign Agriculture Service, somebody you know very well, Mr. Tim Galvin, who is sitting behind us in the godfather role here, as a staff member. He actually called upon us to increase our funding for programs such as the appeal for the Food for Peace Program, which by the way, was started by Clifford Hope and Frank Carlson of Kansas, two of the outstanding members that served agriculture so well in our state. He also said we needed better funding for Food for Progress Program, the Foreign Market Development Program, the Market Access Program, and to develop and build long-term trade opportunities.

I took the liberty of getting Tim’s statement, and I highlighted some of the things that he said last year, and because they are so relevant as of this year. “To thrive in the 21st century, our farmers must have access to a freer and fairer global market.” Then he indicated that we needed to reallocate unobligated export enhancement program funds, if in fact we are not going to use that, the EEP program, that sort of a shotgun program that aims at everybody, as opposed to a rifle, to certainly use those moneys for U.S. food assessments activities, including P.L. 480, Food for Progress, and for purchasing commodities to replenish the Bill Emerson Humanitarian Trust. That was good advice.

Then he said, “The USDA must continue its efforts to do more with less, as resources for administrating our export market development programs have not increased,” and Ms. Sharpless will probably tell us that as well.

Mr. Chairman, if it is any area in the Ag budget, and certainly we have a lot of difference of opinions where we need to increase the Ag. budget, but this is one where I just do not think we can continue with business as usual. Tim’s advice is certainly well taken. If the U.S. is going to be competitive, especially as nations compete for access to all of our opening markets, more particularly the Chinese market, as your chart has shown, we are going to have to plus up our investment, and Tim said we had to join with the private sector in increasing our efforts to develop markets. Now, that is a year ago. We are a year later, and I do not think we have seen too much progress in regards to innovative thinking.

International agriculture trade is not only increasingly competitive as I have indicated, it is a selective environment as well. No longer do larger foreign buying agencies push their shopping carts to the U.S. market in terms of being a reliable supplier and a residual supplier. We have thousands of different and distinct buyers pick and choose from among our many competitors to obtain the best deal they can, more especially with the value of the dollar.

This is a different time. This is not the 1980's or the 1990's. This is a different environment entirely. We have to think out of the box, it seems to me. Since 1994, when the President's trade promotion authority expired, quite frankly, I do not think we have had the ability to compete or take advantage of our farmers' productivity and value, and to promote the merits of our nation's agriculture system to the rest of the world.

We can do that, Mr. Chairman. You pointed it out. The safety of our nation's food supply, the quality of the food and the commodities produced and the nation's reputation as a reliable supplier. Additionally there are environmental benefits that our farmers generate, reduced greenhouse emissions through carbon sequestration, soil and water conservation, and the creation and the restoration of wildlife habitat. I do not think we sufficiently really promote these benefits, not only to buyers, but to the American public and to the American consumer.

In 1996 ag. exports were over $60 billion. Actually they were about 61 billion. Last year ag. exports were only 51. We even sank down to about 49 billion. Now, some would point out that the difference approaches the level of assistance that Congress has provided to farmers over the last few years. In other words, you had 61 billion you were exporting, and now you have got 49 or 50. Subtract the difference. That might add up to, at least in parts, not a one-on-one thing, but it makes a lot of sense in terms of the emergency funds that we have had to fund.

Let me say without hesitation that any future recovery and potential growth for agriculture rests on our ability to trade and access to our foreign markets, and I believe we need TPA, Trade Promotion Authority. We used to call it fast track. I was talking to Bob Zoellick, and I said, "You know, I do not particularly like these acronyms, TPA, Trade Promotion Authority, Trade Access Authority, Trade Enhancement Authority." He said, "Well, what would you think?" I said, "How about 'Sell the Damn Stuff Authority.'"

[Laughter.]

Senator ROBERTS. That is S-D-S—maybe that is not going to work out too well.

[Laughter.]

Senator ROBERTS. I am worried, Mr. Chairman. I hope this is not accurate, but I keep hearing in the press, some of who are writing this, who are in attendance, that this is on the back burner. If anything the trade authority could be considered—I do not want to add more amendments to the emergency Farm Bill, we need to get it done, and I am not going to get into that—but if we do not do this, if we do not get this cracking, it is not going to make any difference in regards to whether or not the levels of funding on the emergency bill or what kind of a Farm Bill.

There is an obvious reason the European Union and other nations are entering into the free trade agreements at an accelerated pace. We are treading water. They are proceeding full-steam ahead. We cannot do that. They complete the additional agreements that take the trade opportunities away from our American producers. The number is 133, may be 130 bilateral agreements since the trade authority expired. We have been involved in 2. You cannot do that.

Mr. Chairman, I commend you for putting together such a well-informed panel. Thank you for holding this hearing. I look forward to the testimony. I have some prepared questions for the witnesses, and like everything else around this place, you are supposed to be at two or three places at the same time. I am going to have to hit the dusty trail over to the Health Committee, where we are marking up a mental health parity bill. If we do not get this Ag. emergency bill done, I will need mental health parity, and so I hope we can get that done.

[Laughter.]

Senator ROBERTS. I have several questions for Ms. Sharpless. I have several questions for Henry Jo Von Tungeln, who is the Chairman of U.S. Wheat Associates, about research and development on new varieties of hard white wheat, happened to have been done at Kansas State University, the home of the ever optimistic and Fighting Wildcats.

[Laughter.]

Senator ROBERTS. It seems to me that we ought to look at the R&D in terms of our product as well if we are going to recapture the Asian market.

Then I have a question for Mr. Carl Brothers, who is the Senior VP of Riceland Foods, and in regards to Food Aide.

Mr. Chairman, I went to Egypt not too long ago. They have an increased population every year of 800 thousand people, 800 thousand people, some living in utter deprivation. We talk about Egypt, talk about India, talk about other countries, so the U.S. Food Aid Program, we really have to take a hard look at that, and I know that Mr. Brothers has some suggestions. I am not going to go into the questions now, but I do have those prepared statements, and I, unfortunately, will have to leave you in about a half an hour. Thank you so much for holding this hearing.

Senator CONRAD. Thank you, Senator Roberts. Thank you for being here, and thank you for your statement.

Before calling our first witness, I would like to insert in the record, at this point, a copy of my letter of April 24th to USDA's chief economist regarding the Department's 10-year export forecast and its implications for export market share, and a copy of the May 23rd response from Mr. Collins.

[The letters of Senator Conrad can be found in the appendix on page 65.]

Senator CONRAD. We certainly want to welcome all of the witnesses who are appearing this morning. We also want to remind them that their full written statement will be made part of the record. We ask that they please summarize their statement in five minutes so that we can have sufficient times for questions and answers.

At this point I would like to call our first witness, Ms. Mattie Sharpless, the Acting Administrator of USDA's Foreign Agricultural Service. Ms. Sharpless is accompanied by Ms. Mary Chambliss, the Deputy Administrator for Export Credits. Thank you very much for being here as well.

Before Ms. Sharpless begins, I want to thank her for coming out to North Dakota several years ago, when she was our agricultural counselor at the U.S. Embassy in Paris. We still have a few pic-

tures of Ms. Sharpless riding a four-wheel drive tractor in North Dakota.

[Laughter.]

Senator CONRAD. Scott Stoffehren, who is on my staff, reminds me that he was with you at the time that you were in North Dakota, and said you made a very positive impression. Welcome. Please proceed.

STATEMENT OF MATTIE R. SHARPLESS, ACTING ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY MARY CHAMBLISS, DEPUTY ADMINISTRATOR FOR EXPORT CREDITS

Ms. SHARPLESS. Thank you, Mr. Chairman. I must say I have the pleasure of going to North Dakota again next week, so I will see what I have out there then.

Well, Mr. Chairman, and members of the committee, I am very pleased to be here today to discuss the U.S. Department of Agriculture's strategy for expanding overseas sales. I have submitted my full statement for the record, along with three charts that illustrate present trade concerns. Now I would like to take a few minutes to highlight the key points.

Trade continues to be critically important to the long-term economic health and prosperity of our food and agriculture sector. Steadily expanding foreign demand brought on by income gains, trade liberalization and changes in global market structures has helped U.S. agriculture exports double from 15 years ago to 53.5 billion today. Clearly, without the offsetting effects of an expanding export market, farm prices and net cash incomes would be significantly lower today.

While our total sales to foreign customers have grown, we have not kept pace with our competitors, and a result, our market share has steadily been eroded. We view this with considerable concern. 20 years ago, as you pointed out, we were the world's export leader, accounting for 24 percent of global agriculture trade. Today, as you say, that has fallen to 18 percent. America's once overwhelming leadership as ag. exporter, has slipped to the point where our nearest rival, the European Union, is on the verge of overtaking us.

Several factors have contributed to the erosion in the U.S. market share. Most importantly are the strong dollar, aggressive competition and our reliance on mature markets. Our effort to help restore our export market share focuses primarily on three areas.

First, we must aggressively seek trade reform to remove market distortions that will allow faster overall growth in trade. First and foremost among these in enactment of the Trade Promotion Authority. It is essential to enable us to effectively pursue trade reform and to level the playing field for our producers and exporters. In addition, the negotiation of a free trade area of the Americas is being reemphasized and World Trade Organization negotiations, now under way, must be brought to a successful conclusion.

Second, we must insure our exporters have the necessary tools to capture a greater share of the benefits that will flow from trade reform and the resulting global market expansion. The programs we now operate have served our food and agriculture sector well,

but the upcoming Farm Bill presents an opportunity to review all of our programs with an eye to improving them to meet tomorrow's challenges and opportunities. We look forward to working with the committee throughout the Farm Bill process to examine ways in which improvement might be made.

Third, we must sharpen our strategic focus to more effectively capitalize on trade opportunities offered by fast-growing emerging markets. The most promising long-term opportunities lie in the developing countries and Asia, particularly China and Southeast Asia, Latin America, Russia, and some selected opportunities in Africa and the Middle East. Over the next decade food consumption in these markets will surge, driven by favorable demographics, some 600 million new middle class consumers with rapidly rising disposable income, eager to spend on more and better food.

In the long run, gaining access and share in these fast-growing markets without sacrificing hard-won gains in our large, mature markets, will prove to be the most effective approach for increasing our overall share of world trade.

Mr. Chairman, U.S. agriculture strong reliance on world markets for its economic future means there is no question that we must strengthen our efforts to expand sales. Our strategy focuses on an ambitious trade liberalization agenda, and new and retooled export promotion programs to capitalize on the opportunities offered by significant growth and future world demand. We know that trade liberalization works. It helps create new sales opportunities as growing numbers of foreign consumers with purchasing power gain increased access to goods produced in many countries. Strategically targeted export programs work. With adequate funding, proper execution and patience, export programs and export assistance carried in targeted high-return markets will enable our producers to capture more new opportunities than our competitors.

The concludes my statement, Mr. Chairman. I would be pleased to respond to questions you or other members may have. Thank you.

Senator CONRAD. Thank you very much. Thank you for your statement.

Let me go to this chart. I appreciate the position on Trade Promotion Authority. I supported the Uruguay round, and I supported our opening to China. I believe those were appropriate and necessary. I tell you, honestly, I have spent a lot of time with the Europeans. I hosted the man that represented them in all trade talks, hosted him here, and he hosted me in Geneva, I spent a lot of time talking to him. It was very clear to me that they have a strategy and a plan for dominating world agriculture. That is their intention. They are spending significant sums of money to do it. This chart says very well what the Europeans are doing in terms of support for agricultural exports. They are spending $5 billion a year, $5 billion. As I analyze the challenge facing us, it seems to me we have got to go out there and match them.

Now, let me just tell me what they have told me. The Europeans have said to me, "Senator, we think you are so successful in so many other areas that you will give up on agriculture." They have told me, "Look, we have much higher levels of support than you do in the United States, and we believe we will always be able to get

equal percentage reductions in those levels of support from those unequal bases, and at some point the United States will fall off the cliff."

Do you have any knowledge of what the administration intends to do with this imbalance in the export subsidy of our major competitors with what we are doing? Do you have any idea of the administration intends to recommend sharply increased spending on behalf of United States' producers in this area?

Ms. SHARPLESS. Mr. Chairman, in the area of export subsidies, I can firmly say that the administration still has that as one of the major goals in the World Trade Organization, to work for the elimination of export subsidies, because in the past, and as you know and others know, that truly has been one of the dilemmas between the European Union and the United States competing against treasuries out in the export markets. That continues to be one of the goals, and that is why it is so important to work to get Trade Promotion Authority to try to get this trade round launched off in order to continue to work to get export subsidies eliminated.

Senator CONRAD. Can I say to you, and I hope through you to the administration, that they are going at it backward. I said this to the previous administration. It has got nothing to do with which administration we are dealing with. They have it backward as well. Here is why we have got it backward. I do not think we are going to get the Europeans to back off without leverage.

When Seattle occurred, our previous trade Ambassador asked me to go in and meet with the European, the representatives of the Europeans. We had about a 2-hour long debate. They are very good at making their case. They claim we have higher subsidies than they do, and that is not true, but they try to make the case. I asked the previous trade Ambassador, "What leverage do you have here to get a result?" She kind of looked at her shoes, because did not have any leverage. This is what concerns me, when I look at this disparity, what the Europeans are doing and what we are doing. Then we go into trade talks and say, "We want you to back off." They are on the high ground here, and there is not much pressure on them to back off. It is a little like the cold war, where we built up to build down. That really, to me, is the only strategy that is going to have any effect. We can get on our high horse and go to these trade talks and tell them, "Gee, you really ought to do this. It is the right thing to do." Meanwhile, they are gaining market share, and they are getting in a more dominant position.

I just hope I can deliver this message through you to the administration. I personally believe we have got to take them on. To the extent we can under trade law, we need to match them.

Let me ask you this on a more technical basis, and please take that message back. I am delivering it to everybody I can in this administration, as I did with the previous administration. Is the Department able to tell us on any given day if we are gaining or losing market share on major commodities such as grains, oilseeds, cotton, beef; do we have that data readily available?

Ms. SHARPLESS. Mr. Chairman, thank you very much, and I will assure you that your message will be taken back to the Department and to the Secretary.

On the question you just posed, we have that data available for the major crops and the major meat-type products. It is more difficult to have that data available on a daily basis for the specialty crops, but it can be gathered, and if you would like that data, we would be very pleased to gather it to forward it to you on the major crops.

Senator CONRAD. I would be very interested in that. Can you tell me, is the Department able to tell us if we are gaining or losing market share on our significant export destinations such as Japan, Canada, China, Mexico? Do we follow our market share in those critical markets?

Ms. SHARPLESS. In those markets like Mexico, our market share has gradually increased. As our market share overall has gone down, our market share and some of the markets you mentioned, of course, have gone down also, but some have gone down slightly and some have gone up slightly, but overall the trend is down, as we know, and we are working a strategy to try to turn it——

Senator CONRAD. Do you have that information on a country-by-country basis on market share?

Ms. SHARPLESS. We can provide that information, yes, also.

Senator CONRAD. OK. USDA, as I understand it, reports it export information around three broad categories: bulk, intermediate and consumer-oriented products. As we look separately at each of those broad categories, is the U.S. market share increasing or decreasing? What do you see in each of those: bulk, intermediate and consumer-oriented? Can you tell us the pattern in each of those three?

Ms. SHARPLESS. I can clearly say for bulk commodities the market share had trended downward. For consumer products, it had been going up quite rapidly, but recently, it has been trending downward also. I am not able to say exactly about intermediate. Probably has rather remained stable, but there too, I would be pleased to pull the data together to forward to you to give you the exact movement of each of those three categories.

Senator CONRAD. Your testimony notes on page 6 that one of the reasons the U.S. is losing market share is because our competitors are out spending us on market promotion activities, and by a large margin, according to your analysis. In light of that, I note that the Farm Bill, approved last week in the House, includes substantial increases for the market access program from 90 million annually to 200 million dollars, and the cooperator program, from about 30 million to 35 million dollars. Does the administration support those increases?

Ms. SHARPLESS. The administration is still in the process of looking at what we need to be doing from a strategic perspective, and trying to turn our export situation around, and we are still in the process of developing positions of what we could do if we had additional funds to do so.

Senator CONRAD. Well, can I just say you will not get the money unless the administration aggressively goes after it, and frankly, I hope they send a signal, a clear signal, quickly, on these programs, but they are relatively minor. I hope they send a message on this issue, and that they send it quickly, that the United States is not just going to go to trade talks and talk about what is right and what is wrong and what is fair and what is not fair, but that the

United States will take an aggressive position and say, "We are going to fight back. We are not going to accept other countries taking markets that have traditionally been ours because they have simply got more resources to go out and buy them." That would do more good in terms of getting a result than any other single thing we could do.

We are going to hear from witnesses in the next panel, especially those from the rice industry, that slumping U.S. Food Aid donations are having a major impact on our exports of commodities, including rice. In fact, our food donations this year are about half of last year's level. Can you tell us why the falloff?

Ms. SHARPLESS. Mr. Chairman, if you do not mind, I would like Mary Chambliss—she is also serving as Acting General Sales Manager—and if she would respond to that question for us, I would appreciate it.

Senator CONRAD. All right.

Ms. CHAMBLISS. Surely. Thank you, Senator.

Yes, I am well aware of the concern from our friends in the rice trade about the current Food Aid Program. We at the Department have had several meetings with them. In fact, there will be one later on this morning, with some of our colleagues in the rice trade.

The situation really—the current year's programming of rice really is back to a more normal year, if you would. We have gone back and looked at the historical series, and it has been running about 250,000 tons most years. In the 1-year, fiscal year 1999, we had several countries, particularly Russia, which normally are not a major participant in our Food Aid Program, as you will appreciate, and they were a user of rice that year. We also, in that period of time, of course, that was when the Indonesian situation was quite bad. We hope it is on a better track now, for lots of reasons and for lots of commodities. The year we did provide quite a lot of rice for basically emergency direct feeding kinds of programs in Indonesia, which we are not doing.

If you take out those unusual situations, we are about at a normal pattern. However, I appreciate the rice trade's interest in expanding our Food Aid Programs. We are looking, and we will continue to work with them, to see if we can identify some additional markets. It really becomes a situation of where the demands are for the rice products primarily that we have to relate to.

Senator CONRAD. Can you tell me where we are in terms of overall food donations, not just rice, but all commodities?

Ms. CHAMBLISS. Certainly. I will be happy to. This year, we will have, oh, probably, if I am thinking of all food aid, and I am including the AID food aid accounts in my mind right now, we will probably be between 6 and 7 million metric tons of total food aid, slightly down from the peak, which was fiscal year 1999, then it was down a little bit last year, will be down a little bit more this year. It will be the wide array of commodities, all of the traditional ones that we have seen. That is probably what, at the end of the day, by the time we get all the shipping and all the legal requirements complied with and the food aid legislation, I would guess 6 to 7 million tons in total of the various programs for this year.

Senator CONRAD. All right. Senator Roberts.

Senator ROBERTS. Just to followup on that, if I might, the criteria for food donations are the driving factor as to why in 1999 it would be increased or it might be a little bit lower as of right now, or especially within the news. I serve on the Intelligence Committee, and my take on Indonesia is that that will continue to be a very difficult area of the world—the world's fourth most populous nation—with stability, and consistency really in question. They do now have a new government, but, gee, they are going to go through a tough time, and I am not aware of any decrease in the need of food aid. Can you just sort of go over the criteria as to what you think is the major driving force as to the amount of food aid that we are supplying, please?

Ms. CHAMBLISS. Surely. I will mention a couple of general things, and then if you would bear with me a moment on Indonesia, because we too are very concerned and looking specifically at Indonesia recently. The main driving force in the last several years have been some of the major emergency requirements. I am thinking particularly of the situation in the North Korea situation and Afghanistan has a huge drought. There are obviously people suffering greatly, I assume——

Senator ROBERTS. I am sorry for interrupting, but most of that in North Korea goes through the World Food Program; is that not correct?

Ms. CHAMBLISS. Right. As in Afghanistan, it also does.

Senator ROBERTS. With Catherine Bertini and all the folks that work for that, all right.

Ms. CHAMBLISS. Right. The world has sort of looked to the World Food Program to meet the emergency needs wherever they happen to be, including in Africa. We also, of course, make major provisions to governments, as well as to our colleagues in the private voluntary organization community. Those tend not to be the emergencies. The big ones you hear tend to be emergencies that really drive large——

Senator ROBERTS. They are disaster driven.

Ms. CHAMBLISS [continuing]. Quantities. You know, when it varies a lot, it tends to be because of that.

We too have been looking at Indonesia. You are quite right, the new president there, she is going to have a difficult time. Let us hope it succeeds well for both our commercial exports, which have been quite large under our GSM commercial program this year. We are beginning to have some very preliminary signals from some parts of the government of Indonesia, that they may have some additional food aid requirements. That may mean rice. I do not know yet. I say these are very preliminary indications, but we will certainly be talking with our colleagues in the Indonesian Government to see what seems appropriate and what we can be helpful with.

Senator ROBERTS. What is the major obstacle that you have in regards to food aid? What is the biggest thing that is your problem?

Ms. CHAMBLISS. Well, that is a tempting question, Senator. There are several things.

Senator ROBERTS. Well, give me two then, if you do not want to choose one.

Ms. CHAMBLISS. I was going to mention one. It is a piece of legislation, but I will not go there, OK?

Senator ROBERTS. No, no, no. Please, we would like to hear.

Ms. CHAMBLISS. Well, I was going to mention, of course, cargo preference, because it is a problem in terms of operations.

Senator ROBERTS. Maybe we should not go there.

[Laughter.]

Ms. CHAMBLISS. I told you, Senator, we did not want to go there.

Senator ROBERTS. Congressman English and Congressman Roberts, over a decade ago, tried to address that, and——

Ms. CHAMBLISS. I do not want to go there either, Senator.

Senator ROBERTS. We just did not figure out that the folks in the middle of the country, that their representatives did not outnumber the folks surrounding.

[Laughter.]

Ms. CHAMBLISS. I will not go there.

The problems tend to be, obviously, budgetary concerns, our problem for all programs. Food aid is no exception to that general U.S. Government concern. I would have to list budgetary concerns and the totality of the food aid programs.

The other dilemma is, we deliver food aid to very poor countries in very difficult situations. It is not an easy job. The people in our private voluntary organizations, the World Food Program, they are hard places to be. They are risky. Both of those entities have lost people in recent years, carrying out our food aid programs.

Senator ROBERTS. Especially in Africa. I know that is a very difficult situation.

Ms. CHAMBLISS. Particularly, I mean, it has been very difficult for them. Partly it is the logistical, operational constraints that we face on the ground. Any budgetary constraints that we have to deal with here are really among the hardest obstacles to running a successful food aid program.

Senator ROBERTS. I am going to ask you an unfair question. This is sort of a curve ball. If we are making efforts in regards to rice, or for that matter, any other commodity, with the freedom-loving people of North Korea, through the World Food Program—and I was part of a delegation that went to Pyongyang with Chairman Stevens some years ago, trying to work out a third-party arrangement to at least get the North Koreans to explore the real world of trade. It was not successful. I hoped that we could see some breakthroughs as they continue their efforts with South Korea. If we doing that with the freedom-loving people, and we are reviewing our sanctions, if that is the word to say, with Iraq and Libya and North Korea, what about the freedom-loving people of Cuba? In regards to rice, that would make a marvelous opportunity. Now, there are some of us going to have some legislation in that regard. That is an unfair question. Do you have any comment about that?

Ms. CHAMBLISS. Simply to note that when Congress passes the laws, we will find a way to implement them as best we can.

Senator ROBERTS. There is some food aid going to Cuba?

Ms. CHAMBLISS. Yes. You have made some—there is some leeway, and of course——

Senator ROBERTS. Through Catholic Relief mostly, right?

Ms. CHAMBLISS. Right. I was going to say Catholic Relief Service we know has done some, and I want to say one of our cooperators a couple of years ago also delivered some food aid.

Senator ROBERTS. Yes. There was a breakthrough.

Ms. CHAMBLISS. There were some actions.

Senator ROBERTS. You know, very temporary.

Ms. CHAMBLISS. Not with government food aid, but in the food aid context if you will.

Senator ROBERTS. Well, thank you. You have been very helpful. Let's—we have Blanche here, who will probably now compare pits of the rice effort and wave her flag, so I will not do that.

[Laughter.]

Senator ROBERTS. Do you feel that there is ample coordination, trade, market promotion, market development, between the Department of Agriculture, USTR, Department of Commerce, U.S. Trade and Development Agency, U.S. Agency for International Development? Are you all working together? Do you have periodic meetings where you all sit and try to coordinate so it is not so stovepiped, if in fact it is stovepiped?

Ms. SHARPLESS. Senator Roberts, yes, we work very closely with USTR. We also work very closely with U.S. Department of Commerce, and with AID on areas where we work with AID.

Senator ROBERTS. Well, one of the things that Secretary Veneman indicated, when she was Secretary of California, and then prior to that, when she was an assistant secretary here, was the need for an interagency task force in regards to exports and all of these subjects, and I would certainly hope that that could be the case. I know that is what she wants to do, along with others down at the Department. I also know they do not have their full team on board as well, which is a continuing problem. See if you cannot get that done for us.

[Laughter.]

Senator ROBERTS. Anyway, the coordination is very important. I am not going to ask that question. I will yield to my good friend.

Senator CONRAD. Before we go to Senator Lincoln, I would just like to followup. You had indicated that food aid this year was going to be 6 to 7 million tons. Could you tell us what it was for 2000 and for 1999?

Ms. CHAMBLISS. I want to say in 1999, Senator, we got close probably to 8 to 9 million tons, last year probably 7 to 8. I will get the specific numbers for you, and we will be happy to provide it.

Senator CONRAD. OK. I would be interested in that.

We have been joined by our very able colleague from Arkansas, a valued member of the committee and subcommittee, Senator Blanche Lincoln. Welcome.

STATEMENT OF BLANCHE LAMBERT LINCOLN, A U.S. SENATOR FROM ARKANSAS

Senator LINCOLN. Thank you. Delighted to be with you two gentleman. You all always give me great hope and great promise, not to mention a hard time.

[Laughter.]

Senator LINCOLN. Thank you, Mr. Chairman, for holding such an important hearing this morning, and for your unwavering leadership on the issue of international trade and agriculture. It is absolutely critical. For those of us who have worked with Chairman Conrad on the committee as well as on the Finance Committee, we

know of his passion for preserving the American farmers' place at the head of the global table, and I for one am a follower of this chart, which I have used many times over.

I am also very pleased that in the next panel we will be joined by a good friend of mine, Carl Brothers from Stuttgart, Arkansas, who will be testifying on behalf of Riceland Foods, which is a farmer-owned cooperative that markets rice, soybeans and wheat, and I know that he will address more of the difficulties that rice farmers are facing, and certainly in the marketing scheme of things, and the global marketplace.

As everybody here knows, rice, soybeans, wheat, cotton, these are all important commodities to our State in Arkansas, and the success of these industries really closely parallels the success of the entire delta region, which many people on Capitol Hill have heard me talk about time and time again as one of the largest poverty areas in our Nation, and with the inability to be able to market our farm products, we are seeing our inability to be able to build our economy in the delta region.

When Congress passed Freedom to Farm back in 1996, there was a true hope that the global marketplace would respond favorably to a more market-oriented policy in the U.S., and our farmers were told that Freedom to Farm would liberate them from government intrusion in the marketplace. Unfortunately, the exact opposite has occurred, because as we freed them up from heavier government support at home, we have subjected them to the vagaries of greater foreign-government intrusion in the global marketplace. This chart back here is just a great example. As we all know, the key to success for our farmers is in the global marketplace, and we are going to have to fight for our share there.

Of course, the cruel irony of all of this is that the intrusion by the U.S. Government in the form of trade sanctions against potentially important markets, such as Cuba, which Senator Roberts has mentioned, has been one of the more frustrating obstacles to our former success abroad. As many of you all know, roughly 50 percent of our rice exports in Arkansas used to go to Cuba, and it was an enormous part of our economy in Arkansas.

The answer to all of this is, on one hand, very simple, we have got to help our farmers gain the greater market access overseas that they need and deserve, yet it is also very complicated, as I have found, as I have gotten more and more involved in these trade issues.

As Senator Conrad has explained so eloquently many times, and as I have mentioned, I have used this chart at home, I have used it in many places, to try and really bring about the stark contrast that it does present to the people in my home state in terms of what our problems are that we are dealing with, and certainly to those that we deal with here in Washington. The U.S. has truly allowed itself to slip into a position of wheat bargaining leverage versus our major competitor, such as the European Union. The EU subsidizes its farmers at such a high level, that simply lowering relative support levels by some formula would do very little to resolve the inherent disadvantage our farmers find themselves facing. This is why we need a new Farm Bill with a strong safety net to give our farmers the security that they need to be able to com-

pete. As has been said time and time again, our farmers are not competing with other farmers in a global marketplace, they are more so than not, competing with other governments.

It is also why I strongly support passing a Trade Promotion Authority bill as soon as possible. I know that our witnesses here have mentioned that. We have to give our negotiators the tools and the flexibility they need to open up markets and to address the unfair trading policies of our trading competitors. TPA alone will not solve all of our problems. We have got to have the assurances that agriculture is going to be at the table, it is going to be a primary player at the table, it is not going to be left behind as a third or fourth resort in terms of these negotiations. It has got to be a player and it has got to be considered that way.

We also need to fix some of the problems that we have created here on our own turf by removing these counterproductive trade sanctions that do little but penalize our own farmers. After 40 or 50 years of a trade policy, it is clear if it is not working, we need to do something about it. I have been a huge advocate of that here, and I will remain a loud voice on that.

We must utilize to the fullest those market promotion and food aid programs that are available to our farmers. That has been touched on a little bit today, but without a doubt, we have, under funded in the past, and we need to be able to focus on that. If we do these things and if we do them expeditiously, then we can reassert our place at the head of the global table. Again, as Senator Conrad has mentioned, and I have been proud to be able to echo, we are at a critical juncture at this point, and if we do not make our place at that table, if we do not utilize this critical time to be able to be a player in this global marketplace, in the next two decades, we are going to have a real serious problem, as these other nations have been in that marketplace, in that global marketplace, and we have not found our way or our place at that table.

We appreciate you ladies being here today and the other panels.

I may have to excuse myself after a while, Mr. Chairman, but we are certainly very proud to have Carl Brothers from Arkansas here.

I would just like to ask these two ladies a brief question. Many of our export commodities in Arkansas, of course, rice and poultry, cotton, even an import commodity, catfish, are having trouble maximizing market shares. I am sorry that I missed your testimony earlier, and you may have already touched on some of this, but what role do you see the market promotion programs playing in improving their market shares, those that we have some difficulties with, anything there?

Ms. SHARPLESS. We believe, with a more aggressive market promotion program, that we could really reach out to expand our market shares overall. We have a global market strategy that we are developing down at the Department, where we are going to be putting attention on the emerging markets, and therefore—and we are also going to be looking at bringing new, more exporters into markets, especially with the high-value products that we have there. We believe that in the long run, once we put more attention on these emerging markets and do our very best to retain our mature markets, there will be potential for growth for many of the com-

modities that we have traditionally exported, as well as new-to-market exports.

Senator LINCOLN. Well, I would just echo a little of what Senator Conrad said, and that is that as you aggressively look for that, I hope that you will equally as aggressively push for the funding for those programs. In your response earlier, I am not sure that we felt the comfort level that we wanted to in terms of how aggressive the administration will be pushing for some of those budgetary items, which, as we all know, they do not happen without funding. Neither do our aid programs.

Do you see any promises in maybe some of the regional negotiations, the Indian trade?

Ms. SHARPLESS. The Free Trade of the Americas is a high priority of this administration. President Bush has said over repeatedly that we hope to get those negotiations finished by 2005. Of course, we are pushing too for the WTO on negotiations, and with the accession of China to the WTO, and more market opportunities that will open there that will be a great gain for an enormous amount of trade for the United States there.

We also are working on the U.S.-Chile Free Trade Agreement, which should bring about additional access. Working to renegotiate the U.S.-Israeli agreement, hopefully to bring about more agricultural access there too.

Senator LINCOLN. Well, just in conclusion, Mr. Chairman, I would not be worth the salt that the people of Arkansas have invested in me to come up here, if I did not mention also, and echoing Senator Roberts' comments about Cuba, it is certainly crucial that we break down the artificial barriers of trade sanctions that are only blocking our farmers from profitable markets. After reviewing 40 plus years of policy, we can certainly assert that it has accomplished all that it is going to accomplish in those 40 years, and I would certainly encourage the administration to be a little more active and a little more forward in working through some of— and certainly taking a role in terms of being able to open up a market that is roughly 90 miles from our border and could be an unbelievable trading partner for one of our commodities, many of our commodities, but certainly in particularly rice.

Thank you, Mr. Chairman.

Senator CONRAD. Thank you, Senator. Let me just go back, if I can, to this chart that shows what has happened to our market share. Our market share is in decline. We have gone from 24 percent 20 years ago to 18 percent today, and each percentage amounts to $3 billion in lost export sales, so that is $18 billion. That is real money and would make a profound difference.

Let us go to the next chart, because I want to rivet this point: these two are connected. Market share is going down, and our main competitor accounts for 84 percent of all the world's export subsidy. We account for 2.7 percent. They are trumping us there 30 to 1.

My question, Ms. Sharpless, would be, what does the administration intend to do about this? In their budget submission, they propose doing nothing about it. There was no increase. In fact, they were proposing substantial cuts. I would ask you: what do they propose to do about this, European dominance of world agricultural export subsidies? What are they going to do to take these folks on?

Ms. SHARPLESS. As I said earlier, Mr. Chairman, in the World Trade Organization, that is one of our major goals. Also the Uruguay Round agreement put limits on export subsidies, and although I have not followed it quite closely most recently, but the European Union itself has stopped using as many subsidies as it used to use because the market situation did not require as much. The requirements of the Uruguay Round, the subsidy levels themselves are going to be somewhat curtailed.

I can appreciate the point you are making about our being consumed by the European Union. We clearly know that ourselves, and USTR or USDA, Department of Commerce, all of us have dealt with this battle. I am going to take your message back to the Department, and I still say with our going into the WTO is probably going to be the best opportunity and the best venue to deal with export subsidies head on, and I appreciate the support we have heard this morning about the need to get the Trade Promotion Authority approved, so that it will enable us to go to the negotiating table. I would like to say too that Agriculture intends to play a major role in these negotiations and be at the table along with USTR, to make sure that we are bringing about a level playing field for our producers and our exporters.

Senator CONRAD. Let me just say that I agree with all of those sentiments. To me it is kind of a meaningless exercise unless we put dollars behind the words, that talking about leveling the playing field is different than leveling the playing field. The way you level the playing field is you put dollars behind it, and you actually level the playing field. I was highly critical of the previous administration. I am going to be highly critical of this administration if it does not do something tangible and real. It is just not enough to talk about being at the table. It is not enough to talk about leveling the playing field if we do not do anything to actually accomplish it.

In your testimony, you pointed out the three things that are causing erosion in market share. One, the strong dollar; second, aggressive competition; and third, over-reliance on mature markets. I agree with all those. It is very clear, a strong dollar is hurting our exports, not only in agriculture but it other sectors as well. Second, aggressive competition, and that is really the point I am trying to drive home today. In your testimony you point out, Europeans have been especially problematic for our exports. The Organization for Economic Cooperation and Development estimates total EU production supports to be 114.5 billion in 1999, compared to 54 billion for the United States. That is a $60 billion difference.

My entreaty to the administration is: you need to send a message by what you request for this Farm Bill and by what you request for export promotion that we will take on our major competitors. We are going to be watching. I hope you will take this message back to the administration. It is not going to be enough for this Senator, to say we are going to try to get something accomplished in trade talks, because without leverage in trade talks, I do not know how we succeed.

I told this to the previous administration, so please do not take this as I am just beating up on this administration. I told the previous administration: explain to me how you are going to accom-

plish the result at the trade talks. How is it, when their level of support is up here and ours is down here, how are you going to get that closed? Who is going to give up? Are the Europeans going to give up their position? I do not think so. I do not think negotiations work that way, in my experience. Unless you have leverage to compel them to change, they will not change.

Please deliver that message strongly to the administration. I am going to be asking and continue to ask what they are doing tangibly to deal with this differential, because it is right at the heart of what is happening in terms of our loss of world market share.

Do you have any final comment?

Ms. SHARPLESS. I just wanted to let you know that I will deliver this message to the Department, and as a matter of fact, we at the Department will have a meeting with USTR to make sure that the message is delivered there also.

Senator CONRAD. I appreciate that, and it is critically important. I have told our new trade Ambassador precisely what I told our previous trade Ambassador. I do not think we are going to be successful without leverage.

I would like to note for the record that Ms. Sharpless has been nominated by the President to serve as the U.S. Ambassador to the Central African Republic, and that she is only the second USDA Foreign Service officer to be named an ambassador. That is a great honor, and we want to say on behalf of the committee and all of agriculture, congratulations. That is a great honor, and I am sure well deserved.

Ms. SHARPLESS. Thank you.

Senator CONRAD. I am confident you will represent us well.

Ms. SHARPLESS. I will do my best, Mr. Chairman.

Senator CONRAD. Thank you very much, and good luck.

Ms. SHARPLESS. Thank you.

[The prepared statement of Ms. Sharpless can be found in the appendix on page 34.]

Senator CONRAD. We will now call on our second panel, including Mr. Len Condon, Vice President for International Trade at the American Meat Institute; Mr. Henry Jo Von Tungeln, U.S. Wheat Associates and Mr. Carl Brothers, Senior Vice President of Riceland Foods of Stuttgart, Arkansas.

Welcome to all of you. As I indicated at the beginning, your full statements will be made part of the record, and we would ask you to summarize in five minutes or so, so we will have time for questions. Again, thank you very much for being here. We certainly appreciate the opportunity to hear from you.

We will start with Mr. Condon, again, the Vice President for International Trade at the American Meat Institute. Welcome.

STATEMENT OF LEONARD W. CONDON, VICE PRESIDENT FOR INTERNATIONAL TRADE, AMERICAN MEAT INSTITUTE, ARLINGTON, VIRGINIA

Mr. CONDON. Thank you, Mr. Chairman. I would just like to thank you for making those very nice comments about Ms. Sharpless. The honor she has received is very well deserved.

I represent the meat industry. We know we are different. We know that we are the exception, and we are doing very well, but

basically the message I want to deliver is we think we could be doing much better, so my members are not content.

The transformation of the U.S. meat and poultry industry from a virtual non-participant in global trade to an exporting dynamo, has been one of the U.S. agricultural highlights of the last two decades. U.S. beef exports have grown from less of 1 percent of domestic production in 1980 to over 9 percent last year, lifting the U.S. from the eighth largest beef exporter to second.

Much of the long-term growth in U.S. exports of meat can be linked to trade liberalizing agreements. The most significant event for beef was the U.S.-Japan Beef and Citrus Agreement of 1988. A subsequent agreement with Korea, the U.S.-Canada Free Trade Agreement, and NAFTA, all helped to create substantial new market opportunities that have paid big dividends for the U.S. beef industry.

Japan imported nearly a billion and a half dollars worth of U.S. beef last year. Because of NAFTA, Mexico has become our second largest export market for beef, and that market is continuing to grow at an impressive rate. Exports to the four countries: Japan, Mexico, Korea and Canada, accounted for over 90 percent of the $3 billion worth of beef the U.S. exported to the world last year.

Exports of pork have been growing at an even faster rate. The U.S. is the world's third largest pork exporter. Pork exports to the world last year represented 7 percent of U.S. production, compared with only 1.6 percent exported as recently as 1990. From 1995 to 2000, U.S. pork exports grew 68 percent. Like beef, our pork exports are heavily concentrated among a relatively small group of countries. Three countries, Japan and our NAFTA partners, Mexico and Canada, accounted for almost 90 percent of the $1.2 billion worth of pork we shipped to the world last year.

As trade has increased and per capita incomes have generally risen around the world, demand for meats and other processed foods and beverages have blossomed.

The composition of U.S. agricultural imports has shifted significantly. In 1980 bulk exports accounted for nearly 70 percent of the value of U.S. agricultural exports, but the share declined steadily to less than 40 percent in 1998. More emphasis on opening markets for processed foods and beverages, including meat products, offer substantial potential for increasing U.S. export income, creating jobs and enhancing U.S. living standards.

While U.S. meat exports grew dramatically over the last two decades, this growth primarily resulted in progress made in reducing tariff and non-tariff barriers in a few key markets. High tariffs in many world markets continue to stifle U.S. meat and poultry exports. USDA's Economic Research Service recently found that global export tariffs averaged a whopping 62 percent, compared with only 4 percent from manufactured goods.

U.S. agricultural tariffs averaged 12 percent and they are among the lowest in the world. With its low average tariffs, U.S. agriculture as a whole, and U.S. livestock and meat and poultry sectors in particular, stand to gain from deep multilateral tariff cuts. For that reason, AMI, along with all of the other U.S. livestock, meat and poultry organizations, are urging the administration to pursue

the global elimination of all tariffs on beef, pork and poultry in the next round of multilateral trade negotiations.

U.S. livestock, meat and poultry industries are also very united in their strong support for renewal or Presidential trade promotion authority. We urge the Congress to grant that authority as soon as possible. Clearly, if the Congress and the administration cannot resolve this issue before the next WTO ministerial conference scheduled to be held in Doha in early November, the launch of a new round of global negotiations will be at risk. With two consecutive failures, the credibility of the multilateral system could suffer irreparable damage leading to a proliferation of bilateral and regional deals that do not serve U.S. global trade interests.

In its recent study on tariffs, ERS also noted that key U.S. agricultural exports, again including meats, face an abundance of "megatariffs" (above 100 percent). Most of these are associated with tariff rate quotas established under Uruguay Round agreements. Specific examples of outrageously high tariff, blocking access for U.S. meats are included in my testimony.

While our meat and poultry exports have been doing well, closer examination of our trade profile shows that our exports are restricted to a few countries. In general, global access for U.S. meat and poultry products remain severely restricted by high tariffs and numerous sanitary barriers, not all of them legitimate.

We could and should be selling much greater amounts of highly desirable U.S. meat and poultry products to the world.

That concludes a summary of the high points of my testimony, Mr. Chairman. I would be pleased to join the panel later in answering any questions you might have. Thank you.

[The prepared statement of Mr. Condon can be found in the appendix on page 48.]

Senator CONRAD. Thank you very much for your testimony.

Now we will hear from—is it Mr. Tungeln, is that how you pronounce it?

Mr. VON TUNGELN. Von Tungeln. You did very well with it.

Senator CONRAD. Thank you. Welcome. Good to have you here.

STATEMENT OF HENRY JO VON TUNGELN, CHAIRMAN, U.S. WHEAT ASSOCIATES AND WHEAT EXPORT TRADE EDUCATION COMMITTEE, WASHINGTON, DC

Mr. VON TUNGELN. All right. It is a great pleasure to be here, and my name is Henry Jo Von Tungeln, and I am a wheat farmer from Calumet, Oklahoma. As I said before, it is an honor to be here today.

I am Chairman of the U.S. Wheat Associates and Chairman of the Wheat Export Trade Education Committee. I am also speaking on behalf of the National Association of Wheat Growers.

As we have for decades, the U.S. continues to lead the world in wheat exports. Last year the U.S. exported 29 million metric tons of wheat, almost half our total domestic production, for a market share of 28 percent. This is substantially less than it was in the 1970's when it ranged from 41 to 49 percent. Then we had the Russian wheat embargo, and the market share tumbled 7 percent in 1 year. It continued to drop until EEP was fully utilized for wheat in the early 1990's.

If I might, I would like to present a chart depicting U.S. market share and wheat exports over the last 10 years. There is a popular misconception, that this graph will hopefully correct, that U.S. wheat exports are in a steep nosedive. This is simply not the case. In the years since 1996, exports have been consistent at around 28 to 29 million metric tons, and market share has also been consistent at 27 to 28 percent.

I would like to briefly mention some of the factors that negatively impacted sales and market share. In 1996 China's U.S. wheat imports dropped by two-thirds, from 3 million metric tons to 1 million metric ton. Egypt cut their purchases almost in half, from 5 million metric tons to 2.8 million tons. Obviously, when two customers cut sales by 4 million metric tons, you feel the impact. This year USDA voluntarily stopped using—this same year, USDA voluntarily stopped using EEP for wheat as prices spiked and subsidies were no longer justified. When EEP was dropped, France and others stepped in immediately.

Twenty percent of the world wheat market is largely inaccessible to us, another reason. We cannot sell to Iran, Iraq or Cuba because of ongoing political situations, and we can only nibble at Brazil's market because of Mercosur's tariff block on our full and free access.

I was in Brazil recently, visiting with the largest grain buyer and miller in Brazil, and he was outlining the problems they had in getting the quality of wheat they needed because they are locked in with Argentina under the Mercosur agreement. Finally I asked him, "Is there anything within our power that we could do to correct that situation?" He said, "I can answer in two words: fast track."

Also, importing markets are changing dramatically, going from government buyers to private buyers. The change, unfortunately, has played into the hands of the state export trading monopolies for three reasons.

First, the U.S. marketing system is rather complex compared to the one-stop marketing shopping offered by the Wheat Boards. Second, with privatization, supply relationships can transcend price comparisons, and the STEs were quicker to develop those relationships. Third, the STEs used their monopoly pricing to undercut U.S. wheat market prices. They give away loyalty fees, that in the United States, would be termed graft. They give away higher protein that in the United States must be specified and paid for, and they can do it all under a cloak of darkness.

I would like to bring out a second chart, this one made by the USDA, depicting world wheat imports, to show you where the opportunities exist. Contrary to popular opinion, wheat is a growth market, and this graph vividly illustrates that, even as the former Soviet Union and China have removed themselves from the import picture.

We go where the growth is, and the industry is trying to address the needs of those markets. The grain trade and USDA are working on providing cleaner wheat and more specific wheat qualities. U.S. Wheat Associates works with the new foreign buyers, millers and bakers, teaching them about U.S. wheat quality characteristics and contracting.

Australia has convinced Asian markets that they need Australia's white wheat for the best noodles. The competing class in the United States would be hard white wheat, but it is not yet produced in sufficient volumes, and we really need to work on that.

The U.S. grain trade has been slow to realize that they have to be marketers and not traders. We are now starting to see them make a good effort, however.

There are actions that we urge the U.S. Government to take. The Congress has the power to take the first step toward removing barriers around the world, by passing the Trade Promotion Authority. U.S. Wheat strongly encourages you to do so this year. Also to pursue the Free Trade of the Americas and bilateral agreements, and WTO can reduce barriers, but the FTAA will go much further within our hemisphere by eliminating them. The FTAA would, for instance, put us on an equal tariff footing with Argentina in the large Brazilian market. We are heartened by the committee approval of the U.S.-Vietnam bilateral trade agreement, and hope the Senate will soon approve that agreement.

We will need more. Again, achieving the FTAA and bilaterals will depend on Congress giving the administration trade promotion authority, which we strongly support.

We cannot over emphasize the importance of reforming the AWB and CWB trade practices. We reiterate the U.S. needs to go to the WTO negotiating round, demanding that the Wheat Boards be stripped of their monopoly powers and be made transparent.

I see my time is up. I have other comments we could make. Just one more issue I would like to, and that is in the area of biogenetics, and most of the buyers of the world say they will not buy that, and we need to be very careful. Congress needs to be very careful to ensure that genetically modified wheat will not be registered in the United States until we have all of the structure worked out so that we can provide it to customers as they would like it.

Thank you again for the opportunity, and I will answer any questions you might have.

[The prepared statement of Mr. Von Tungeln can be found in the appendix on page 52.]

Senator CONRAD. Thank you very much.

Mr. Brothers.

STATEMENT OF CARL BROTHERS, SENIOR VICE PRESIDENT FOR INTERNATIONAL BUSINESS, RICELAND FOODS, STUTTGART, ARKANSAS

Mr. BROTHERS. I first want to begin by thanking you, Mr. Chairman, for your efforts this morning on behalf of agriculture and also on behalf of rice and the opportunity to speak to you about rice this morning.

Mr. Chairman, members of the subcommittee, I am Carl Brothers, Senior Vice President for International Business of Riceland Foods, Incorporated, located in Stuttgart, Arkansas. Riceland is a farmer-owned cooperative that markets rice, soybeans and wheat, grown by its 9,000 members. It is the nation's largest miller and marketer of rice, one of the nation's ten largest grain companies, and a major soybean processor in the South. Riceland markets products in more than 50 countries worldwide.

I am pleased to testify this morning on behalf of the USA Rice Federation on the topic of export market share for U.S. Rice. USA Rice is a federation of the U.S. Rice Producer's Group, USA Rice Council, and the Rice Millers Association, working together to address common challenges, advocate collective interests, and create opportunities to strengthen the long-term economic viability of the U.S. rice industry. USA Rice members are active in all major rice-producing states.

Exports represent between 45 and 50 percent of domestic rice production. U.S. high-quality rice has typically enjoyed success in world markets. From 1960 through 1990 U.S. rice averaged a 20 percent world market share. The 1990's have not been kind to our industry, however. The U.S. share of world rice trade averaged just 14 percent from 1990 to 2000, and USDA's current baseline projects a further decline to less than 10 percent in the current decade.

World rice more than doubled in the 1990's, but U.S. exports grew by just 14 percent. Competitive suppliers like China, Vietnam, India and Thailand, captured the lion's share of this growth, due largely to locational advantage of these suppliers to growth markets in East Asia, the Middle East and parts of Africa.

In addition to the competition from Asian suppliers, U.S. trade sanctions have caused more harm to the U.S. rice industry than any other commodity group. Cuba, Iran and Iraq were each the largest export market for rice at one time, but they effectively have been shut off. Steps toward trade sanctions reform, as contained in the Trade Sanctions Reform Act of last year, are just now being implemented. The total size today of markets in Cuba, Iran and Iraq, is 2.85 million metric tons of rice, close to total U.S. rice exports in 2000. These three markets were the backbone of the U.S. rice industry for many years, and their loss contributes significantly to the current level of the U.S. export share.

U.S. rice exports also continue to face high duties in key markets, discriminatory duties that favor one type of rice over another, and thus override market signals. Non-tariff barriers like reference prices and price bands that have the effect of discouraging rice imports. For example, U.S. rice exported to Japan above Japan's tariff rate quota, faces an effective duty of 1,000 percent. High duties on fully milled rice and rough rice make U.S. exports of these types of rice to the EU uneconomical. Although we do ship brown rice to the EU, the duties we face are high, and they protect domestic rice production.

Many countries in Latin America, Europe and Africa place discriminatory tariffs on milled rice imports. U.S. rough rice exports benefit, but the U.S. milling sector suffers as foreign milled rice markets are close and milling value for U.S. rough rice is added overseas rather than at home.

If there are any doubts that trade agreements provide an advantage to U.S. rice, then we need only look at the North American Free Trade Agreement to put these concerns to rest. At the beginning of the 1990's, U.S. rice sales to Mexico were less than 100,000 tons. In marketing year 1999/2000 U.S. exports, because of NAFTA, had surged to nearly 400,000 tons, making Mexico the No. 1 export destination by quantity.

Food aid is an important component of rice exports, accounting for up to 20 percent of exports in recent years. While the rice industry works toward a level playing field in foreign markets and the removal of U.S. economic sanctions, food aid remains an important support of the export infrastructure of our industry, providing needed jobs and income to rural communities, and giving humanitarian assistance to those in need.

I am joined in Washington this week, Mr. Chairman, by my producer colleagues and miller colleagues, to press for immediate assistance to our industry in the form of a Presidential food aid initiative for 500,000 tons of rice. Food aid movements planned for fiscal year 2001 are well below shipments in the last two fiscal years. This is particularly serious in the southern-most rice-producing regions, where an estimated 75 percent of the business of rice mills is in food aid.

Senator Lincoln of this subcommittee and Senator Hutchinson of the full committee, have signed a letter to the President, along with other rice state senators, urging such an initiative, and the rice industry is thankful for their support.

In conclusion, the U.S. rice industry has a substantial amount of work ahead of it in international markets. We must continue to trade on the hallmarks of U.S. rice on the world market, that is, high quality and reliable delivery. We must also use wisely the trade promotion dollars that are made available to us and continue to ensure that adequate food aid resources from the U.S. Government are available so that the maximum amount of rice can be programmed to fight world hunger.

We cannot prevail alone. Mr. Chairman, and members of the subcommittee, I want to strongly urge you, on behalf of the U.S. rice industry, to support a rice food aid initiative, to lift economic trade sanctions, and to support the President's request for trade promotion authority. Well-negotiated agreements that bring levels of protection to an equitable basis and are consistently and strongly enforced are critical to the U.S. rice producers and millers. There simply is no other option than open and vibrant foreign markets for the long-term economic viability of the U.S. rice industry.

I wish to thank you for this opportunity to appear before the committee, and I welcome your questions.

[The prepared statement of Mr. Brothers can be found in the appendix on page 59.]

Senator CONRAD. Thank you very much. I appreciate the testimony of all three of you. We have heard now from one part of the industry that is struggling, one part of the industry doing very well, one part of the industry that is kind of holding its own, and that was by design. That is what we intended to do here today.

I want to thank you all for what was really excellent testimony. Let me start by asking Mr. Condon, as you look at this pattern, we see what the Europeans are doing versus what we are doing. When you see a chart like that, does it concern you?

Mr. CONDON. Yes, and I actually think your chart is a little out of date. There is actually more blue in there now. Some of the yellow, South Africa, has done away with its subsidy, actually the community is accounting for a higher percentage now of the export subsidies.

Export subsidies, of course, are a horrible trade-distorting mechanism. They not only affect developing countries, but the worst aspect of export subsidies is the impact they have on the developing world. They certainly hamper our exports. The beef industry or the pork industry export subsidies are not as big a factor as they are in the grains side of the equation, but we are hoping, and we, along with most people in the U.S. agricultural industry, are urging the administration to make export subsidies No. 1 priority in what we hope will be an upcoming round of trade negotiations.

Senator CONRAD. I am hopeful of that too. My experience with the Europeans is unless they see that you have leverage in a negotiation, not much happens. You know, when I got to Seattle, the first night the trade Ambassador met with me and asked me to go meet with the Europeans, as I indicated earlier. I could see from that meeting, they had absolutely no intention to do anything but confuse the issue, try to divert people's attention somewhere else, and I am very concerned, if we do not give leverage to our negotiators, it will be pretty hard for them to bring home a victory.

Mr. CONDON. Well, one of the advantages we have on export subsidies is the community is pretty much isolated. I mean, they are the only ones paying export subsidies. While almost everyone in the rest of the world wants to get rid of them, or at least severely restrict the amount of export subsidies, so we have some advantage there.

Senator CONRAD. Mr. Von Tungeln, when you see a chart like that, what does it tell you?

Mr. VON TUNGELN. Well, as a farmer, it tells me we are probably getting a raw deal.

[Laughter.]

Mr. VON TUNGELN. Really, as I came here this morning and listened to your opening comments and those of Senator Roberts and Senator Lincoln, I felt like my leaving Oklahoma at six o'clock yesterday morning to arrive here at nine o'clock this morning was kind of a waste of time, because you all are more aware of the problems then we are. I do appreciate this opportunity to add my comments and to have the opportunity to learn from this experience more about what the problems are, and certainly this is one of them, and I appreciate your concerns about the leverage that we need to go into the WTO negotiations as you very well expressed all morning.

Of course, the wheat industry feels like there are other steps we need to take. Perhaps we will get into that a little later.

Senator CONRAD. Let me ask you this question if I could. We look at the worldwide stocks-to-use ratio for wheat, and we see that it is at just over 22 percent. That is the lowest level in 30 years. Yet prices are very, very low. What is your explanation for that?

Mr. VON TUNGELN. Well, really, I am just a farmer and do not have a lot of education in economics or anything, but economics would tell us that wheat prices should be the highest they have been because of the stocks-to-use ratio. We would have to try to figure out why prices are so low when conditions are so favorable to us. I suppose the strong dollars is one of those, and that perhaps we have not efficiently used all of the programs that have been

available to us, and that we have not sufficiently funded other programs, like the FMD and MAP.

The wheat industry is optimistic about our industry, and making further sales, but we need some help. We need to get the barriers let down in the countries that have been mentioned several times here this morning. We need to have adequate funding. Our producers have to be optimistic because we are putting a lot of our own dollars into these programs that the USDA leverages with funds to help us build and promote and maintain and keep markets. That is what we are all about.

Senator CONRAD. If I could suggest my own read of what is happening to us, the strong dollar that you mentioned is clearly playing a role in what is happening to us in terms of exports and market share. Second, the Foreign Agriculture Service testified to the competitive position we see on that chart. Our competitors are going out there and buying markets.

Mr. VON TUNGELN. They are.

Senator CONRAD. They are spending a lot of money doing it. A third element is that inventory management has changed. You know, we see a lot of just in time delivery, and improved transportation systems, and there is a lot less grain in the pipeline than there used to be, and that really changes things in terms of the stocks-to-use ratio and we certainly see the effect. All of those are contributing to the fact we have a very low, historically low stocks-to-use ratio, and yet we have a price problem.

Mr. VON TUNGELN. Excuse me, Senator.

Senator CONRAD. Yes, sir.

Mr. VON TUNGELN. One other place that we could perhaps do more is in the area of credit guarantees. Some are saying we should do less. We contend that we should do much more, particularly in the developing countries around the world. We need to strengthen our credit guarantee program. That might help us.

Senator CONRAD. The Europeans are coming after that too.

Mr. VON TUNGELN. Certainly are.

Senator CONRAD. They made a big point of that in Seattle.

Mr. VON TUNGELN. Yes.

Senator CONRAD. Let me ask. You said something else, that grain boards, state trading enterprises, give away loyalty fees to their customers. That is what you called it, loyalty fees. What does that entail, loyalty fees?

Mr. VON TUNGELN. I thought I describe it in some other way. I hate to do this, but I was recently in a country where we were trying to recover some of our market share, and our market share had been declining. We were trying to recover it. We were making all the arguments and everything, and they were telling us that our quality was not quite right, that the noodles did not have the right feel in your mouth, all those things, that the qualify of our grain just did not quite fit their market. Then they said there is another reason, that we do not give good service. Man, we were really taken aback by that, because we thought that was the area where we excelled. We give technical advice. You know, if anybody has a problem, we send someone to help them with it and all.

We said, "What do you mean we do not give good service?" Well, they said, "Why cannot you take us to Hawaii for a week to play

golf, or why cannot you provide us with other things?" We cannot do that. It would not be legal and it would be unethical and everything. Maybe that is——

Senator CONRAD. Actual grain buyers asked you why you could not take them to Hawaii?

Mr. VON TUNGELN. Right. That is part of the loyalty fees. You know, they are able to do things that we cannot do, and as we said, they buy markets. I hate to bring that up, but it happened.

Senator CONRAD. It is reality, is it not?

Mr. VON TUNGELN. Yes.

Senator CONRAD. It is reality. I wish I could say you are the first one I have heard it from, but it is not. We have to understand this is a tough business out there.

Mr. VON TUNGELN. It is a tough business.

Senator CONRAD. The Europeans have been playing this game a long time. They are good at mercantilist economics, and that is basically what they are engaged in, mercantilist economics. They have been at this game for hundreds of years, and they are good at it, and they are good at misrepresenting it.

Mr. VON TUNGELN. The STEs have certain advantages that they can do these things under the cloak of darkness.

Senator CONRAD. No transparency. They are able to go in there and cut prices.

Mr. VON TUNGELN. Absolutely, no transparency.

Senator CONRAD. We had a circumstance a number of years ago where a representative of ours was in the room, and they did not know they were in the room, and the question of pricing came up, and our European counterparts told them, "Well, do not worry about that. We will be under the U.S. price, whatever it is." Certain state trading enterprises made that same representation, "Do not worry about that. We deliver you a price that is below whatever is on their market. Whatever is on the board, we will come in under that."

Mr. VON TUNGELN. "Or we will give you a half percent protein better or more cleanliness than you specified," whatever.

Senator CONRAD. Mr. Brothers, when you see a chart like that, what does it tell you?

Mr. BROTHERS. I look at it three different ways. You have the export subsidy side of it, which is true, but then you have the strong internal supports in Europe as well, and then you have the tariffs on the products that we ship to Europe. It is not a double-edge sword, it is a triple-edged sword.

Senator CONRAD. The triple whammy.

Mr. BROTHERS. Yes, sir.

Senator CONRAD. I also have a chart that shows the EU is providing, on average, $300 an acre in domestic support. These are OECD numbers, not my numbers, not USDA numbers. These are OECD numbers. OECD is the international scorekeeper. They are giving over $300 an acre of internal support, and we are giving $38 an acre. That is point No. 2 that you are making.

Point No. 3 is tariff barriers. I was very struck in your testimony by what Japan does in terms of their barriers to us. It is really dramatic. Could you just remind us of the point that you made on Japan?

Mr. BROTHERS. Oh. First off, the markup there, the block to get in the country is huge but even with the negotiation in the Uruguay Round, where now we have an opening of around 400,000 tons in round numbers to Japan, and the United States is enjoying about 200,000 tons annually of that opening, the quality of that opening just absolutely stinks. Once the rice is tendered for——

Senator CONRAD. Is that a technical trade term?

[Laughter.]

Mr. BROTHERS. Once the rice is tendered, I mean you have a state agency tendering for the rice, it is going into storage in Japan. They mark the product up so that it will not clear to the market. We have one small opening under the Japan agreement, where we can get product in there, like about a half percent of the total opening, that we can get in there and work directly with customers. Otherwise, you are working through the state, and the rice going into storage sits there. Recently, it is my belief, that it was donated to North Korea. It never really entered the Japanese market. We are really fighting now to gain better quality access on that opening to Japan, because we really do not have what we need here the way—and that is what happens each time people circumvent what you negotiate.

Senator CONRAD. Really play the game.

A number of you have mentioned that. For example, Mr. Condon, you mentioned in your testimony the need to increase funding for MAP and the cooperator program. Do you have specific funding levels in mind?

Mr. CONDON. Well, in that circumstance, the more we can get, the better. The industry has been talking about a doubling of those funding sources, but they do an enormous amount of good. We can really leverage those moneys so they are very helpful to all of the agricultural industries.

Senator CONRAD. Mr. Von Tungeln, what would your position be? Do you think those should be increased and——

Mr. VON TUNGELN. Absolutely. That FMD is the heart of our program, and we would like to see FMD increased at least to 43.25 million, 43.25, and MAP at not less than 200 million.

Senator CONRAD. OK.

Mr. VON TUNGELN. That is just the heart of our program. That is what we depend on. That is what keeps our overseas offices open and carries out our activities that we——

Senator CONRAD. You believe those are truly useful, and not some boondoggle.

Mr. VON TUNGELN. Absolutely not.

Senator CONRAD. Some people charge, that it is just corporate welfare, a waste of money.

Mr. VON TUNGELN. It is the only way we can carry out the programs that we try to do to promote exports for our producers, the use of those funds.

Senator CONRAD. Mr. Brothers, what would you say on this question?

Mr. BROTHERS. Rice has also used the funds successfully. We are constantly being critical ourselves, looking at these programs, making sure we are using the money in the best way that we possibly can. Many refer to getting the most bang for the buck on the

money spent, but it is an integral part of what we do and important to our success overseas.

Senator CONRAD. Do you have a figure in mind?

Mr. BROTHERS. No, sir, I do not. We have been successful in getting a fair share of these funds through the years, and it is based upon the quality of the programs we put forward.

Senator CONRAD. OK. You have seen people coming and going. We have a real problem because the Disaster Assistance Bill is on the floor, and important decisions have to be made in the next 20 minutes. I am going to bring this to a close.

Before I do that, let me just ask each of you if you have an additional message, something that you have not been asked about here today, or something that you think is an important message to send our colleagues.

Mr. Condon?

Mr. CONDON. Well, I have already mentioned TPA. TPA is extremely important. I would just leave you with that message. We are, as you have already noted, the meat industry is doing very well, but most of our exports go to a few markets. We want to export to the world.

Senator CONRAD. We need to broaden it.

Mr. CONDON. Absolutely. We need to diversify.

Senator CONRAD. Mr. Von Tungeln?

Mr. VON TUNGELN. Yes. TPA and the funds that we have talked about before. One additional one that I know that Senator Roberts wanted to ask about was the hard white wheat, and that is a very important thing in marketing wheat. I had an Egyptian trade team in my home this past month, as a matter of fact, and had buyers around my table that represented 60 percent of the purchases from Egypt, which is our No. 1 hard wheat, winter wheat buyer, and they said, "What about hard white wheat?" We said we just are not ready with it yet. Kansas devotes 85 percent of their research and development funds to that. Oklahoma devotes about 25 percent of theirs. Nebraska devotes some. Colorado devotes some. Everybody is trying to come up with good hard white wheat varieties that would not only produce, but have good milling characteristics.

Senator CONRAD. It is a big market out there.

Mr. VON TUNGELN. Yes. Everybody in the world, wherever you travel, they want hard white wheat. The Egyptian millers said, "We bring you this message." They said, "We like hard white wheat. We are going to buy it. We would like to buy it from the United States. If we cannot, we will buy it somewhere else."

Senator CONRAD. Very good message.

Mr. VON TUNGELN. I do not know what you can do to help us on that. It is a very difficult situation. You have to treat it like a whole new crop, like it was a corn or a bean or something, and you cannot commingle it. It has to be delivered from my farm to the miller in Egypt or wherever, clean and pure. There are a lot of problems, but we are working on it real hard. We recognize what the problem is, and working on it.

Senator CONRAD. Very good.

Mr. VON TUNGELN. Help us if you can. First and foremost is the trade promotion authority and the funding.

Senator CONRAD. Very well. Mr. Brothers.

Mr. BROTHERS. Short term, long term. Short term, you can see the politics that seem to be involved in the rice business with some of the countries that are important to us. It means food aid continues to be on the short term very important to the rice industry. Longer term, trade promotion authority is ultimate. I do think that we need to do a better job of negotiations, try to close off some of these loopholes. I am particularly concerned about preferential tariffs in the world, where people are using tariffs to enhance their own interior economics and at the demise of the United States. Trade promotion authority is very important, we have got to be smarter about it than we have been in the past, as I have heard you say often this morning.

Senator CONRAD. Thank you so much. I appreciate you all coming to testify, and the really excellent testimony from each of you. The committee appreciates it, and I appreciate it. Have a good day.

[Whereupon, at 10:43 a.m., the subcommittee was adjourned.]

APPENDIX

AUGUST 1, 2001

Statement of Mattie R. Sharpless
Acting Administrator, Foreign Agricultural Service
U.S. Department of Agriculture
Before the Senate Agriculture Committee, the Subcommittee on Production and Price Competitiveness
Washington, D.C.
August 1, 2001

Mr. Chairman, members of the Committee, I am pleased to be here today to discuss the status of the U.S. agricultural export situation, the U.S. Department of Agriculture's (USDA) strategy for expanding overseas sales, and how coming policy decisions can benefit our food and agricultural sector.

Trade continues to be critically important to the long-term economic health and prosperity of our food and agricultural sector. We have far more capacity than needed to meet domestic food market requirements. To avoid excess capacity throughout the system -- our farmland, transportation, processing, financing, and other ancillary services – we must maintain and grow our sales to customers outside this country. In fact, our system capacity grows faster than the domestic market alone can absorb. Given the maturity of our own food market, aggregate U.S. domestic demand has grown slower than the farm sector's rate of productivity growth. However, steadily expanding foreign demand – brought on by income gains, trade liberalization, and changes in global market structures – has helped U.S. exports double over the past 15 years to $53.5 billion estimated for the current fiscal year. Clearly, without the offsetting effects of an expanding export market, farm prices and net cash incomes would be significantly lower today.

We are optimistic about the growth prospects for global agricultural trade. During the past 20 years, much of global trade performance was influenced by government policies and actions rather than by economic decisions dictated by the marketplace. These include the collapse of the Soviet Union, the U.S.-European Union (EU) subsidy wars, and China's shifting agricultural policies. As the world more and more moves away from such state-determined events toward a more open global trading system, U.S. agricultural exports will have a greater growth potential. But, of course, we will need to have both a clear strategy and appropriate tools to achieve this potential.

Export Situation and Outlook

First, let me review the already tremendous importance of trade to our industry, and review performance over the past decade and a half, a time when we established some of the key promotion programs in use today.

Dollar for dollar, we export more meat than steel, more corn than cosmetics, more wheat than coal, more bakery products than motorboats, and more fruits and vegetables than household appliances. Agriculture generally ranks among the top six U.S. industry groups in export sales, accounting for about 5 percent of the Nation's total exports. Moreover, agriculture is one of the few sectors of our economy that consistently contributes a surplus to our trade balance.

In just the past 15 years, agricultural exports have increased from about 18 percent of producers' cash receipts to 27 percent today. We conservatively project that by 2010, the proportion will reach 30 percent – a clear measure of the impact that globalization of the food and agricultural systems is having on our producers.

The farm sector's reliance on exports can be further appreciated by observing the share of production of individual commodities exported each year. This year, we project 53 percent of the

wheat crop will be exported, 47 percent of cotton, 42 percent of rice, 35 percent of soybeans, and 21 percent of corn. Moreover, these estimates do not include the quantities of soybeans and corn that increasingly are being exported in the form of livestock products, so their full export percentages are even higher. In 1990, only 1.4 percent of the value of our grain output and 1.8 percent of the value of our soybean output was exported as livestock products. Today, those numbers have grown to 4.3 percent for grains and 5.4 percent for soybeans.

Likewise, many of our high-value products (especially horticultural products) have come to rely on foreign markets for a large share of their production, including almonds (71 percent), cattle hides (62 percent), and walnuts (51 percent).

For both global trade and our exports, the fastest growing sector over the past 20 years has been what we call consumer-oriented high-value products (meats, poultry, fruits and vegetables, and processed grocery products). Our exports of these products are expected to reach a record $22.5 billion in 2001.

Since 1999, these products have been our largest export sector, accounting for over 40 percent of total sales, up from just 15 percent in 1985. Performance has been outstanding for many of these products including meats (beef, pork, and poultry), fresh fruits and vegetables, snack foods, pet foods, tree nuts, breakfast cereals, wine and beer. Of the 20 fastest growing agricultural exports during the past decade, 15 were consumer-oriented high-value products, with pet food leading the list. Pet food sales have grown almost 14 percent a year for a decade and should finish 2001 at a record 1 million tons valued at $1 billion.

Consumer food products not only are fast growing -- but also more resilient to the wide market volatility that affects bulk commodities. During the global financial crisis of the late 1990s,

bulk commodity export value fell some 23 percent as both prices and volume declined. In contrast, sales of high-value products, which had 13 consecutive years of new records before the crisis, dropped only 5 percent in 1998 and 1999. Then, in 2000 they quickly resumed growth and soared to new highs in 2001. In fact, sales of many individual products expand every year, and especially to the emerging markets.

This bright outlook for high-value products is also positive for our bulk commodity producers. The sharp expansion in red meats and poultry sales in turn increases overall demand for grain and soybeans needed to produce those products. Since we do not import corn or soybeans, these benefits flow fully to our grain and soybean producers. Likewise, the growing sales of processed food exports require raw farm products that, for the most part, come from our own farmers.

Market Share

Although trade has become increasingly important and our total sales to foreign customers have grown, we have not kept pace with our competitors and, as a result, our market share has steadily been eroded. We view with considerable concern this erosion in our share of world agricultural trade. Twenty years ago, we clearly were the world's export leader, accounting for 24 percent of global agricultural trade. Today, that share has fallen to 18 percent. America's once overwhelming leadership as an exporter has slipped to the point where our nearest rival, the European Union (EU), is on the verge of overtaking us. In 1999, the EU share stood at over 17 percent, less than one point less than our share. This is in sharp contrast to 20 years ago when the EU was a distant second with 13.5 percent of world exports.

Losing six points over 20 years may not sound like much, but every percentage point loss

of market share amounts to $3 billion in lost export sales and a reduction of $750 million in agricultural income. But, the good news is that every percentage point we can recover will add $3 billion in export sales and $750 million to agricultural income each year.

Our examination of the reasons for our erosion in market share suggests several factors have contributed. Most important among these are:

- the strong dollar;
- aggressive competition; and
- over-reliance on mature markets;

Strong dollar. Quite simply, the strengthening of the dollar over recent years has raised the prices of our products relative to our competitors. Moreover, some of our competitors' currencies have been falling in value at the same time, further widening the price gap. The result is that our products have become less price competitive with similar products of both our in-country and third-country competitors. While a strong dollar does have significant net benefits to the American economy as a whole, it does have a negative effect on export-dependent sectors like agriculture.

The export performance of specific U.S. goods during the 1990s varied depending on the relative exchange rate movements of competitors and importers and on specific foreign market competition. For example, our wheat lost 10.5 percentage points in market share between 1992 and 1998, while our corn lost only 3 points. In contrast, our fresh and frozen poultry exports gained 8 percentage points, while cotton gained 1.6 points during the same period.

Aggressive competition. Our competition comes from both "disciplined" and "undisciplined" activities, within a World Trade Organization context. Among disciplined activities, generous domestic supports and export subsidies, especially by the EU, have been especially

problematic for our exports. The Organization for Economic Cooperation and Development estimates total EU production supports to be $114.5 billion in 1999, compared to $54 billion for the United States. At the same time, high tariffs in many importing countries have a dampening competitive effect as well. They keep out less expensive products, forcing consumers to pay higher prices. These higher prices not only reduce domestic demand but also stimulate local production, depriving our lower cost producers of export opportunities. With agricultural tariffs averaging 62 percent globally (ours average only 12 percent, for comparison), any significant reduction in tariffs would mean a significant alteration in trade flows, clearly to the benefit of our producers.

We also have experienced increased competition in the form of market development activities. Since the Uruguay Round agreement, our competitors, notably the EU and the Cairns Group, have increased their market development investments by 50 percent to $1 billion annually. In sharp contrast, our market development spending has been virtually flat at about $250 million, and this is a sharp reduction from the early 1990s when MAP funding fell from $200 million to the current $90 million. Moreover, many of the market development activities funded through our programs have remained essentially the same for many years despite changes in world markets and competition. Market development activities are even more critical in today's consumer-driven marketplace than they were when this was less true 10 years ago.

Over-reliance on mature markets. U.S. exports continue to be concentrated in the developed countries. These are large, slower growing country and commodity markets whose overall import demand growth rate lags that of the rest of the world, the so-called "mature markets." Consider that two-thirds of our exports go to our six largest country markets (Japan, EU, Canada, Mexico, South Korea, and Taiwan). Yet, since the early 1990s, import demand growth for four of

these has fallen below the world average, a sharp contrast to the strong import growth posted by the emerging markets in Asia and Latin America. On a commodity basis, our exports typically have been heavily concentrated in slower growing, price-sensitive bulk commodities far more so than our competitors, especially the EU. Their exports increasingly are focused on high-value products for which the global import market both is substantially greater and growing faster.

Taken together, this analysis clearly suggests that the markets we have relied on in the past are fading in relative importance in global agricultural trade. If we are to expand our share of global trade, we must focus more intently on those markets that will increasingly dominate trade over the next decade. That is, we must be forward looking, both in terms of our targets and in obtaining the required tools and resources.

Global Marketing Strategy

We suggest that our role in the Department in restoring our export share involves three areas: substantive progress in trade reform; review and adjustment of our export programs through the current farm bill debate; and, pursuit of an ambitious, newly focused global marketing strategy to gain a 22 percent market share over the decade.

First, we must aggressively seek trade reform to remove market distortions that will allow faster overall growth in trade. The potential benefits of this to us are simply enormous. The President has placed trade at the top of his agenda and set forth critical trade policy initiatives to move us in this direction.

- Foremost among these is enactment of enabling Trade Promotion Authority (TPA). It is essential to enable us to pursue trade reform effectively and to level the playing field for our producers and exporters.

- The negotiation of a Free Trade Area of the Americas (FTAA) is being reemphasized. It will provide us with much greater access to 450 million consumers (outside the NAFTA countries) whose income will surpass $2 trillion by 2005. Conservative estimates suggest this could boost sales of our products by as much as $1.5 billion annually when fully in force.
- World Trade Organization (WTO) negotiations now underway must be given new impetus and brought to a successful conclusion. If successful, total long-term benefits to the United States from eliminating world agricultural policy distortions are $13.3 billion annually. Our producers and the industries they support could see an increase in the value of U.S. agricultural exports of 19 percent each year.

Second, we must ensure our exporters have the necessary tools to capture a greater share of the benefits that will flow from trade reform and the resulting global market expansion. The programs we now operate -- our export credit guarantee, market development and food aid programs -- have served our food and agriculture sector well. But the upcoming farm bill presents an opportunity to review all of our programs with an eye to improving them to meet tomorrow's challenges and opportunities.

- For example, given our WTO commitments and negotiating proposals, are there new, effective approaches to export market development that clearly would not be subject to disciplines under the Uruguay Round Agreement on Agriculture?
- Should the new trade title allow the Secretary of Agriculture more flexibility to shift priorities and funds in response to the dynamic world trade situation?
- What program levels are appropriate to meet today's increasingly sophisticated

global competition?

- Are our aid and development programs still appropriate for today's conditions, or could they be better designed and targeted?
- Are there better ways to use our programs to help speed countries along the development time line to grow their incomes and thus make them better customers?

We look forward to working with the Committee throughout the farm bill process to examine these and other ways in which improvements might be made.

Finally, of course, our international trade and domestic farm programs must be complementary. Programs that may work against one another must be reassessed. It makes no sense to have trade policies and programs promoting farm exports while our domestic support programs inadvertently reduce our competitiveness. It also goes without saying that our domestic and export policy must be consistent with our existing international obligations and, at the same time, give us ample latitude in pursuing our ambitious goals in the ongoing negotiations.

Third, we must sharpen our strategic focus to more effectively capitalize on the trade opportunities offered by fast-growing, emerging markets. But, we must also evaluate the potentials carefully because not all emerging markets offer equal rewards. Our analysis suggests that the most promising long-term opportunities lie in the developing countries in Asia (particularly China and Southeast Asia), Latin America, Russia, and some selected opportunities in Africa and the Middle East. Over the next decade, food consumption in these markets will surge, driven by favorable demographics -- some 600 million new "middle class" consumers with rapidly rising disposable incomes eager to spend on more and better food.

However, these markets are not without risk and surely will not all exhibit uninterrupted

trade growth patterns. Even today, we are clearly concerned about the economic situation in Argentina and Brazil. Even though the long-term economic and food demand fundamentals in these countries are strong, and further trade liberalization and market development will make them excellent export prospects, these markets are vulnerable to short-term serious downturns.

In the long run, we argue that gaining access and share in these fast-growing markets, without sacrificing hard won gains in our large mature markets, will prove to be the most effective approach for increasing our overall share of world trade. We must make use of all the tools at our disposal -- our market development, our export credit guarantee, and our development activities -- with each tool appropriately focused on the specific markets that support our exporters as they access these markets, .

Our efforts to develop the Mexican market provide an example of a comprehensive approach. NAFTA provided our exporters with significant opportunities as Mexico lowered (and will ultimately eliminate) many tariffs and other trade barriers. USDA continued aggressive use of export credit guarantees to support sales and, at the same time, encouraged our partners to use their market development funds to educate Mexican buyers about the quality of U.S. products. As a result, Mexico now has overtaken the EU as our third largest market, and is expected to buy $7.4 billion worth of our food and agricultural products this year.

<u>Conclusion</u>

Mr. Chairman, U.S. agriculture's strong reliance on world markets for its economic future means there is no question that we must strengthen our efforts to expand export sales. Our strategy focuses on realizing an ambitious trade liberalization agenda and using new and retooled export promotion programs to capitalize on the opportunities offered by significant growth in future world

food demand. This approach will be employed worldwide, but with special emphasis placed on the most promising growth markets in the developing world, especially in Asia and Latin America.

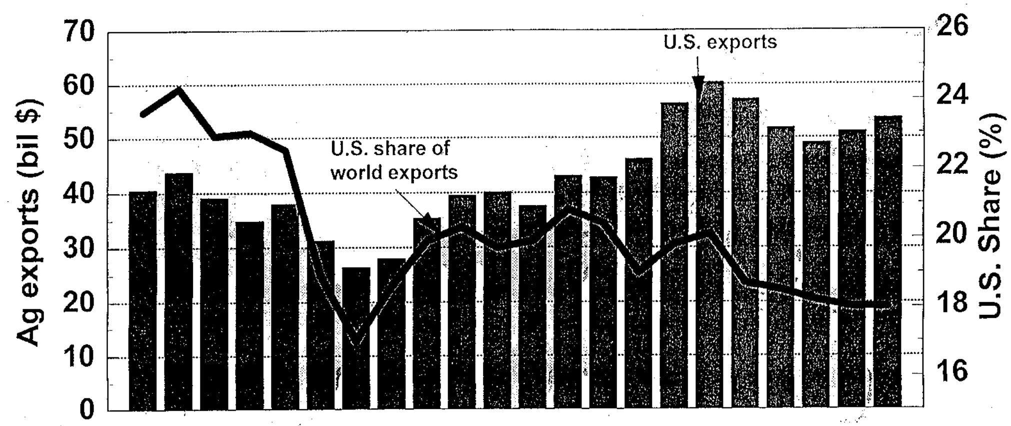
First, we know that trade liberalization works. It helps create new sales opportunities as growing numbers of foreign consumers with purchasing power, gain increased access to goods produced in many countries. However, to be fully effective, it also must curb the ability of some countries to distort markets at the expense of others.

Second, strategically targeted export programs work. This is true, to varying degrees, whether it be market development, export credit guarantees, trade shows and missions, technical assistance, or marketing intelligence. With adequate funding, proper execution, and a modicum of patience, export programs and exporter assistance carried out in targeted "high return" markets will enable our producers to capture more of the new opportunities than our competitors.

That concludes my statement Mr. Chairman. I would be pleased to respond to questions you or the members may have.

While U.S. Exports Have Grown, Our Competitors' Have Grown Faster, Pushing U.S. Share Lower

EU on the verge of overtaking the U.S. as world's largest agricultural exporter

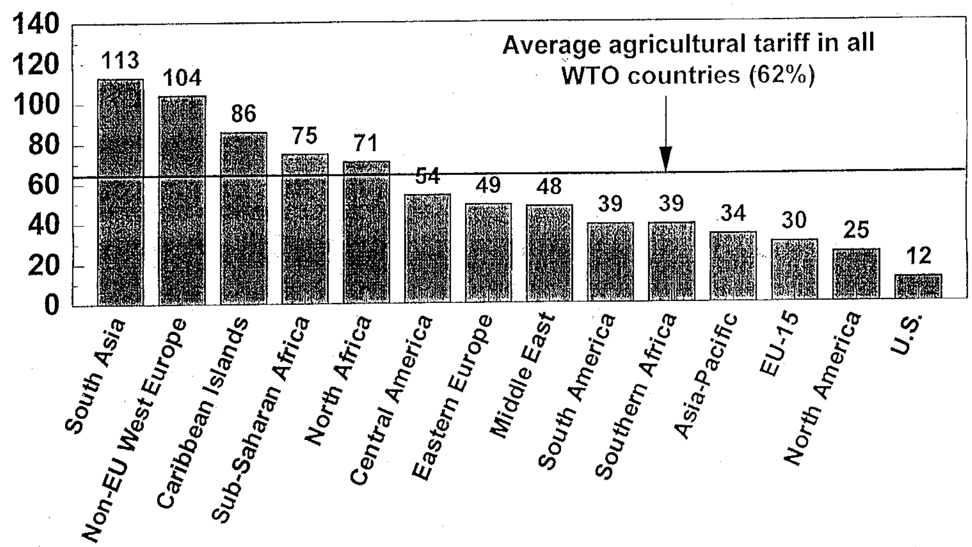


Years		'81		'83		'85		'87		'89		'91		'93		'95		'97		'99		01
J.S. Exports	40.5	43.8	39.1	34.8	38.0	31.2	26.3	27.9	35.3	39.5	40.1	37.5	43.1	42.8	46.1	56.3	60.3	57.1	51.7	49.0	51.0	53.5
J.S. Share (%)	23.6	24.3	22.9	23.0	22.5	18.9	17.0	18.6	19.9	20.3	19.7	19.9	20.8	20.4	19.0	19.8	20.1	18.7	18.5	18.2	18.0	18.0

Top Trade Policy Objective: *Improve Market Access*

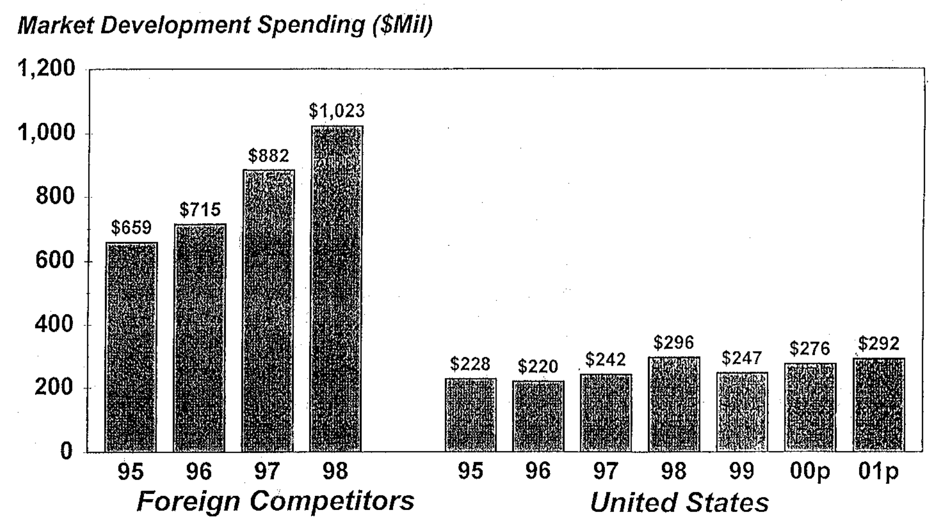
U.S. food and ag producers are among world's most efficient but high foreign import tariffs offset that advantage -- reducing U.S. exports, producer prices, & farm income

Average Bound Tariff Rates (%)



Competitors' Investment in Market Development Is Much Larger and Has Grown Faster Since Uruguay Round

Foreign Competitor Spending Grew Over 50% Since URAA



Note: Data includes contributions of both governments and producer groups.
U.S. data includes MAP & FMD and is displayed for comparability with foreign competitor data

AMERICAN MEAT INSTITUTE

TESTIMONY OF

LEONARD W. CONDON
VICE PRESIDENT, INTERNATIONAL TRADE

AMERICAN MEAT INSTITUTE

Before the

SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS
U. S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY

August 1, 2001

Thank you, Mr. Chairman and members of the Committee. I am Leonard W. Condon, Vice President for International Trade, American Meat Institute (AMI). AMI represents the interests of packers and processors of beef, pork, lamb, veal and turkey products and their suppliers throughout North America.

One of the highlights of the changing face of U.S. agriculture over the past two decades has been the stunning growth in red meat and poultry exports. Because U.S. exports of beef, pork and poultry have grown faster than other countries' exports of these products over that period, the U.S. share of the global meat and poultry market has increased significantly.

On a value basis, the U.S. is now a net exporter of beef, pork and poultry. Still, the U.S continues to be the world's largest importer of beef and a major pork importer.

A relatively small group of individuals – most of them affiliated with AMI-member companies – are owed much of the credit for transforming the U.S. from a virtual non-participant in the global export market to a meat-exporting dynamo. U.S. beef exports have grown from less than one percent of production in 1980 to over 9 percent last year, lifting the U.S. from the eighth-largest exporter to second (behind Australia and closing the gap fast). On a value basis, we are the largest beef exporter in the world. By the middle of this decade, the U.S. Department of Agriculture predicts that we will also lead in terms of beef tonnage.

Much of the long-term growth in U.S. exports of beef can be linked to trade liberalizing agreements. Ideally positioned as a producer of disease-free, high-quality beef, the U.S. has been able to capitalize on market liberalization in the 1980's and 1990's. Clearly, the most significant event for beef was the U.S.-Japan Beef and Citrus Agreement of 1988. A subsequent agreement with Korea, the U.S.-Canada Free Trade Agreement and the North American Free Trade Agreement (NAFTA) all helped to create substantial new market opportunities that have paid big dividends for U.S. beef producers, processors and exporters.

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As a direct result of the 1988 Agreement, Japan last year imported over 368,000 metric tons of U.S. beef, worth nearly $1.5 billion dollars. Driven by the market opening requirements of NAFTA, Mexico has become our second largest export market for beef and is continuing to grow at an impressive rate. Exports to the four countries with which the U.S. has "special arrangements" – Japan, Mexico, Korea and Canada -- accounted for over 90 percent of $3 billion worth of beef the U.S. exported to the world last year.

Exports of pork have been growing at an even faster rate than beef. The U.S. is the world's second largest importer of pork (after Japan), and the third largest exporter (after the European Union and Canada). The U.S. became a net pork exporter in 1996 and has never looked back. Pork exports to the world last year represented 7 percent of U.S. production, compared with only 1.6 percent exported as recently as 1990. Over the past five years – from 1995 to 2000 – U.S. pork exports grew 68 percent.

Like beef, our pork exports are heavily concentrated among a relatively small group of countries. Three countries – Japan and our NAFTA partners, Mexico, and Canada -- accounted for almost 90 percent of the $1.2 billion worth of pork we shipped to the world last year.

The U.S. is also the world's leading exporter of poultry meat. Last year, we sold about $2 billion worth of poultry meat, about the same value as five years earlier. Russia, Hong Kong and Mexico account for the bulk of our poultry exports. While exports to Mexico continue to increase, shipments to Russia have declined over the past few years due to the uncertain economic situation in that region.

As trade has increased and per capita incomes have generally risen around the world, demand for meats and other processed foods and beverages has blossomed. A recent report issued by the World Trade Organization (WTO) (Special Study No 6 Market Access: Unfinished Business – Post Uruguay Round Inventory) stated, "Since the mid –1980's there has been a rather dramatic acceleration in the growth of world exports of high-value and processed agricultural products. The share of this dynamic segment of world agricultural trade has increased from 39 percent in the early 1980's to 52 percent on average in 1995-1997."

Shifts in the composition of U.S. agricultural exports have been even more dramatic. In 1980, bulk exports accounted for nearly 70 percent of the value of total U.S. agricultural exports, but the share declined steadily to less than 40 percent in 1998. With relatively low bulk commodity prices in the late 1990's and with slow volume growth, the value of U.S. bulk trade in 1998 was below the value in 1980.

When legendary stick-up artist, Willy Sutton, was asked why he pursued a career robbing banks, he answered, "'Cause that's where the money is." Willy's comments provide excellent direction for U. S. policy-makers assigning product priorities for the next round of trade negotiations. Emphasis on opening markets for processed foods and beverages, including meat products, offers substantial potential for increasing U.S. export income, creating jobs, and enhancing U.S. living standards. It is in our Nation's economic interest to strive to maximize exports of U.S. high-value processed products. Demand is growing, margins typically are more attractive for processed than for bulk products, and the U.S. food and beverage industry leads the world in the development of processing, packaging and marketing technology.

While U.S. meat exports grew dramatically over the past two decades this growth primarily resulted from progress made in reducing tariff and non-tariff barriers in a few key markets. Generally, high tariffs in many world markets continue to stifle U.S. meat and poultry

exports. In a January 2001 report, Profiles of Tariffs in Global Agricultural Markets, USDA's Economic Research Service (ERS) concluded that, "High protection for agricultural commodities in the form of tariffs continues to be the major factor restricting world trade." ERS found that the global agricultural tariffs average a whopping 62 percent -- compared with only 4 percent for manufactured goods.

Worldwide, average commodity tariffs range from 50 to 91 percent, with the highest tariffs on tobacco, meats, dairy, sugar, and sweeteners. Not only is protection high in dairy, sugar, and meat markets, it is uniformly high across most countries.

U.S agricultural tariffs average12 percent, among the lowest in the world. With its low average tariffs, U.S. agriculture, as a whole – and the U. S. livestock, meat and poultry sectors, in particular – stands to gain from deep multilateral tariff cuts. For that reason, AMI together with the National Cattlemen's Beef Association, National Chicken Council, National Pork Producers' Council, U.S Meat Export Federation, and U.S. Poultry and Egg Export Council in a February 26, 2001, communication to Ambassador Zoellick urged the Administration to pursue the global elimination of all tariffs on beef, pork, and poultry in the next round of multilateral trade negotiations.

In this connection, the U.S. livestock, meat and poultry industries are also united in their strong support for renewal of presidential trade promotion authority. We urge the Congress to grant that authority as soon as possible. Clearly, if the Congress and the Administration cannot resolve this issue before the next WTO ministerial conference scheduled to be held in Doha in early November, the launch of a new round of global negotiations will be at risk. With two failures in a row, the credibility of the multilateral system could suffer irreparable damage, leading to a proliferation of bilateral and regional deals that do not serve U.S. global trading interests.

In its recent study of tariffs, ERS also noted that key U.S. agricultural exports -- again including meats -- face an abundance of "megatariffs" (above 100 percent). Most of these are associated with tariff-rate quotas established under the Uruguay Round Agreements. Examples of countries applying these megatariffs include the EU, which protects its beef market with an in-quota tariff of 20 percent on a limited quantity of frozen boneless beef. Quantities imported over that threshold must pay a duty of from 132 to 177 percent. Switzerland charges 35 percent for a limited quota of fresh chilled beef and 376 percent on amounts in excess of the quota. Israel applies an in-quota duty of 120 percent and an over-quota tariff of 190 percent. Incredibly, Norway applies an in-quota duty of 296 percent for frozen boneless beef and an over-quota rate of 785 percent. Any chilled beef imported into Norway must pay a flat duty of 392 percent. U.S. pork and poultry is subject to similar megatariffs levied by numerous countries.

Thus, while our meat and poultry exports have been doing well, closer examination of our export profile shows that our exports are restricted to a few countries. In general, global access for U.S. meat and poultry products remains severely restricted by high tariffs and numerous sanitary barriers, not all of them legitimate. For example, access for meat and poultry to the EU – the world's largest economic block – remains severely restricted by high tariffs and unjustifiable non-tariff barriers. Despite the problems Europe has had in recent months, our largest meat export to the region is horsemeat. We can ship no poultry products because our poultry processing plants use hyperchlorinated water and almost no beef because of the illegal ban on hormone-treated beef. U.S. pork exports are severely restricted by a small EU tariff-rate quota. Until China enters the WTO – which we hope will be soon – we are denied access to a potential market of over 1.2 billion meat-eating consumers – by high tariffs. We could, and

should, be selling much greater amounts of highly desirable U.S. meat and poultry products to the world.

Finally, it is appropriate to address the role of foreign market development and promotion. The coordinated export promotion efforts of the U.S. livestock and meat industry are largely channeled through the U.S. Meat Export Federation, a Denver-based organization supported and directed by a broad cross-section of the U.S. livestock and meat industry and allied interests. USMEF has offices in key locations around the world to assist U.S. exporters in developing foreign markets and in promoting sales of U.S. beef and pork products. The growth and development of USMEF parallels the expansion of U.S. meat exports, and there is no question that the organization has played a role in this remarkable success story.

USMEF is funded by contributions from its members along with USDA funds provided under the Market Access Program (MAP) and Foreign Market Development Program (FMD). USMEF has been one of the major recipients of MAP funds in recent years. However, the limited amount of funds available and the need to apportion these monies among a large number of deserving U.S. agricultural export interest groups, on top of the continuous uncertainty surrounding the future of these funding sources have created problems in sustaining long-term strategies and programs for developing markets. USDA's MAP and FMD funds have been instrumental in building foreign demand for U.S. meats and other agricultural products. However, to maximize the usefulness that can be achieve Congress should significantly increase funding levels and take steps to somehow provide greater certainty with regard to the availability. The experience of the U.S. meat industry clearly demonstrates that a modest investment in foreign market development can yield major benefits to the U.S. economy by boosting export sales exponentially.

That concludes my testimony, Mr. Chairman. I would be pleased to join with the panel in answering any questions from you or other members of the Subcommittee.

Statement of the
U.S. Wheat Associates
Wheat Export Trade Education Committee
and
National Association of Wheat Growers

TO THE
SENATE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS

Presented by
Henry Jo Von Tungeln, Chairman
U.S. Wheat Associates
and Wheat Export Trade Education Committee

August 1, 2001

My name is Henry Jo Von Tungeln, and I am a wheat farmer from Calumet, Oklahoma. It is an honor to address you today, on behalf of America's wheat producers. I am here in my capacity as chairman of U.S. Wheat Associates, the industry's export market development organization, and as chairman of the Wheat Export Trade Education Committee, the industry's advocacy organization on trade issues. I will also be speaking on behalf of the National Association of Wheat Growers, the industry's grower organization.

Today's world market for wheat is different than it was 20, 10, or even five years ago. The difference between when I started farming, over 50 years ago, and now isn't merely dissimilar: it is, as Shakespeare once said, like comparing Hyperion to a satyr.

In 1949 we were still five years away from the enactment of the "Food for Peace" program. By 1955, six years after I became a wheat farmer, the Commodity Credit Corporation owned wheat stocks that exceeded the total domestic and export use that year. Within just a few years, roughly two-thirds of American export sales were effected through the P.L. 480 mechanism, enhancing U.S. exports. But then in 1962, the European Economic Community established their Common Agricultural Policy, which had a massive effect in the other direction, inhibiting U.S. grain exports.

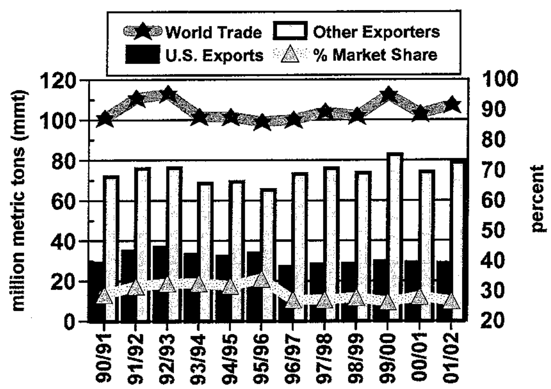
This one juxtaposition of developments -- simplified, I admit, for the purpose of this presentation -- illustrates the dynamic force that actions by the world's governments have exerted on every American wheat farmer in the last half of the last century. The effects aren't merely in exerting a little pressure here or there... they can, and do, push and shove markets this way, that way, and sometimes every which way.

The public debates then, as now, revolve around the same general topics of government involvement in free markets, and I think the fact that we are still wrestling with these issues illustrates that there are no magic bullets, no easy solutions. It also serves to alert us to the fact that a new government program, or program changes, may impact U.S. wheat exports -- for good or ill -- for the next half a century or more. So while it is vitally important to concern ourselves with the year to year assistance that the government gives to farmers, it is just as important to take a broad view and to plan now for the farmers of tomorrow.

The U.S. continues to lead the world in wheat exports. For the marketing year completed on May 31, 2001, the U.S. exported 29 million metric tons of wheat, almost half of the total domestic wheat production. Our nearest competitor had exports amounting to only 60% of the level of U.S. exports:

Canada, at 17.5 MMT, was the second largest exporter, followed closely by Australia at 16 MMT and the EU with 15 MMT. Argentina is the 5th largest exporter, with 11.5 MMT in exports last year.

Our share in the world wheat market is substantially less than it was a couple of decades ago. Through the 1970's the U.S. market share ranged from 41 to 49%. Then we had the Russian wheat embargo, and market share tumbled 7% in one year. Market share continued to drop until the Export Enhancement Program (EEP) was fully utilized for wheat in the early 1990's.



If I may, I'd like to present a chart depicting U.S. market share in wheat exports over the last 10 years.

There is a popular misconception, that this graph will hopefully correct, that U.S. wheat exports are in a steep nosedive, headed to oblivion. This is simply not the case.

The projected U.S. market share for the current marketing year which began on June 1, is about 27%. Last year it was about 28%. How does this rank on a year to year basis? Our market share was about 29% in marketing year (MY) 90/91. It grew with the use of EEP, hovering in the 31-32% range, in the first years of the decade, and then we achieved a 34% share in MY 95/96. (One thing we should note here is that although that was the decade's high point for market share, we actually exported more wheat in MY 92/93 and 93/94.) 96/97 was the decade's low point. We had the lowest level in exports (27.1 million metric tons) and our share dropped to 27%.

In the years since May 1996, however, exports have been consistent at around 28-29 MMT, and market share has also been fairly consistent, at around 27-28%.

So, what are the forces that have affected our market share in the last 10 years? There has been a wide variety of market forces at work, and there are even more market forces coming into play that will affect America's future market share in wheat trade.

Some of the factors negatively impacting sales and market share:

Looking particularly to the drop of market share in 1996, China was a huge loss for the U.S that year. Their imports dropped by two-thirds, from 3 million metric tons to 1 million tons. Egypt was also a major disappointment that year, cutting their U.S. imports almost in half, from 5 million tons to 2.8 million tons. Obviously, when your two largest customers account for a 4 million ton loss in export sales, you feel the impact.

Another big factor was the fact that USDA voluntarily stopped using the Export Enhancement Program for wheat in July 1995 as wheat prices spiked and wheat subsidies were no longer justified. The impact was immediately felt in several countries, most notably in the North Africa region where our market share

dropped from around 40% to 7% by MY 98/99. (Market share there for U.S. wheat is now on an upward trend, hitting 11.9% last year. We still have a lot of ground to make up.) When EEP was dropped, France stepped in immediately, taking advantage of historical colonial ties and freight differentials.

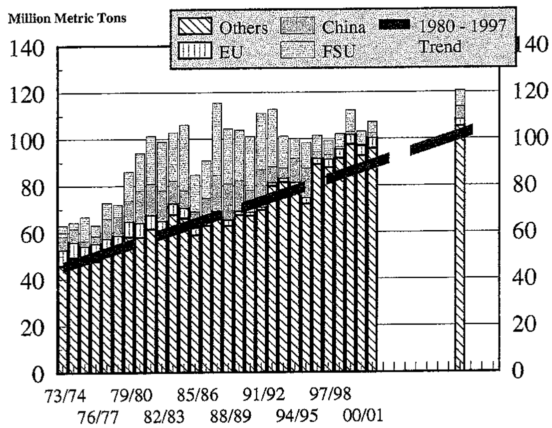
On a continuing basis, one major problem is our inability to access some of the world's largest markets. As we all recognize, wheat is the most political of grains, and sales during the last decade are no exception. We are simply unable to participate in Iran, Iraq, and Cuba because of ongoing political situations. We are only able to nibble at Brazil's market because Mercosur's uncompetitive tariffs block our full and free access. Those four countries account for nearly 20% of the world wheat market. When 20% of the market is taken away from the U.S. wheat producer and handed on a platter to our competitors, of course market share will be impacted.

In another development, the importing markets have changed dramatically, going from government buyers to private buyers who are less familiar with the U.S. marketing system and are much more discerning about wheat quality characteristics. For instance, 20 government buyers were basically making all the wheat purchases in the Middle East and East Africa market in 1990. Today, there are 105 private buyers making those purchases. The amount of purchases made by the 14 government buyers still there has lessened considerably.

The changing market, unfortunately, plays into the hands of the state export trading monopolies, for three very basic reasons:

1. First, those new private buyers, as I mentioned, have to learn how to use the rather complex U.S. marketing system. As they enter the world marketplace they are vulnerable to the one-stop shopping that the Canadian Wheat Board and the Australian Wheat Board offer. Although the U.S. system is very responsive to buyers who know how to make the right specifications and contract terms, it appears complicated and requires a tremendously intensive effort, which U.S. Wheat Associates is making, to assist and educate new buyers.
2. The second reason that the changing market benefits the CWB and AWB is more esoteric. With new privatization, the old trading models don't work. Supply relationships can transcend price comparisons, and the STEs were quicker to develop those new relationships. The U.S. grain trade is learning that we have to be marketers -- not traders -- with the new buyers, but it's frankly taken them a bit longer to recognize that.
3. And how have the STEs established themselves as marketers, and established those new types of supply relationships? The answer is easy: they use their monopoly pricing to undercut U.S. market prices as they choose to insinuate themselves into a relationship, they give away "loyalty fees" that in the U.S. would be termed "graft," and they give away higher protein that in the U.S. must be specified and paid for. And they can do it all under a cloak of darkness that is simply not allowed in the transparent U.S. marketing system.

Unfortunately, although market share and sales have been fairly constant recently, I have not been able to present you a happy picture filled with unbounded optimism. We have been facing, and continue to face, serious challenges. Sometimes, on my most pessimistic days, it almost seems as if the Shakespeare's satyr is in charge today, and Hyperion's glory faded long ago. But we have the ability, if we choose, to anticipate future market needs and make the kind of changes that are necessary.



I'd like to bring out a second chart, this one made by USDA depicting world wheat imports, to show you where the opportunities exist.

Contrary to popular opinion, wheat is a growth market. People are traveling, experiencing new foods, and bringing those experiences back to homelands where the consumption of wheat foods may historically lag behind rice. A great example of market growth is happening in Taiwan, a mature market for U.S. wheat, where the USW country director introduced sour dough bread to Taiwanese bakers. The new bread has taken hold in Taiwan, and bakers are demanding the appropriate wheat from millers, who are seeking that wheat from the U.S. Another great example is in Vietnam, where bakers are trying to introduce America's "Mother's Day" to their population. Bakers there love Mother's Day because consumers buy cakes on that Sunday every year. And then they will hopefully begin to associate cakes with many joyous occasions, and the market will take off even more than it is now.

Basically, this graph vividly illustrates the steady growth in wheat exports, if you remove the former Soviet Union and China from the picture. While we earnestly hope that they return as major players in the wheat export market, it's evident that they won't assume the gigantic proportions they filled in past years.

So we need to look at the growth markets and adjust our marketing strategies where it is necessary. Some changes, of course, must be instigated by industry. These include:

- Cleaner wheat. The CWB and AWB supply wheat with less dockage, and our customers are demanding that the U.S. lower our dockage levels as well. The export companies led the efforts in the Pacific Northwest, installing cleaners, and the USDA has required lower dockage on donated wheat. We still have a problem with wheat originating out of the gulf and from the east coast, but I think we're beginning to see signs of the trade making efforts to supply cleaner wheat and respond to buyers' demands.
- Quality characteristics. U.S. Wheat Associates spends an inordinate amount of time working with the new foreign buyers and millers and bakers, teaching them about wheat quality characteristics and assisting their learning curve and correctly specifying for the wheat they need and expect. With funding from federal market development programs and state wheat commissions, USW is continuing that intensive effort. Some particularly vivid successes -- which are NOT being supported with federal dollars due to sanction rules -- are the result of work being done with the formerly sanctioned countries of Libya and Sudan, where buyers are starting to purchase U.S. wheat again.
- Hard white wheat. Australia has done an effective marketing job convincing Asian markets that they need Australia's white wheat for the best noodles. The competing class in the U.S. would be hard white wheat, which is not yet produced in sufficient volumes for maintaining a reliable and

continuous export market supply. America's wheat farmers are going to have to decide whether they want to cede this growing portion of the Asian wheat market to the Australians, or if they are going to fight for it with an adequate and consistent supply of a good quality hard white wheat. There are some issues that need to play out on the domestic side on this issue, but it's an issue that is quickly reaching critical mass for certain markets, especially in Korea and with other longtime loyal U.S. wheat buyers. Korea was almost completely a U.S. market just a few years ago, but Australian competition, primarily for their noodle business, has cut our share almost in half.

- Supply relationships. As I mentioned earlier, the U.S. grain trade has been slower than our competitors to realize that we have to be marketers, not traders. They fully realize it now, however, and we are starting to see them make a good effort towards getting to know our new customers, anticipating their needs, and looking down the road beyond the immediate shipment. U.S. Wheat Associates continues to work one-on-one with buyers and users, developing those market relationships in nearly 100 countries.

There are actions that we urge the U.S. government to take:

- Pursue the Free Trade Area of the Americas and bilateral agreements. The WTO can reduce market barriers, but the FTAA will go much further within our hemisphere by eliminating them. We need fair and free access to the South American market, and we won't get it as long as Mercosur tariffs block our sales to Brazil. We are heartened by the bipartisan endorsement, by the chairman and the minority spokesman of this committee, of the U.S.-Vietnam bilateral trade agreement, and hope that the Senate will soon approve that agreement. And we need more. I believe that the time will come -- sooner rather than later -- when we can begin to seriously consider and pursue an Asia-U.S. Free Trade Area.
- Achieving the FTAA and bilaterals may depend on Congressional willingness to provide the administration with trade promotion authority. As the U.S. wheat industry supported fast track during the last administration, we support it now, and we urge your favorable consideration.
- You've heard this from us before, but we cannot overemphasize the importance of bringing the AWB and the CWB to heel. Together, these two boards account for a full third of the market share in world wheat trade, so when their tactics cause distortions, a huge part of the market is skewed. We reiterate, the U.S. needs to go to the WTO negotiating round fully committed to demanding that the wheat boards be stripped of their monopoly powers and be made transparent.
- Help us get access to the 20% of the world wheat market that is largely closed to us. The U.S. needs to drop the remaining vestiges of the unilateral sanctions against Iran and Cuba. Iraq is a more difficult situation, but we are hopeful that someday we can reopen the market relations we had there formerly.
- We applaud this administration, the last administration, and Congress for the bipartisan support necessary for China's entry into the WTO. Once they enter the WTO, we have every reason to hope for a healthy wheat export market, especially among the entrepreneurial private importers who are looking to blend America's high quality wheats with their domestic stock to produce superior wheat food products for China's burgeoning cities.
- There are, to be sure, some things the U.S. can do better in our food aid program. For instance:
    - The U.S. needs to clarify our internal rules on food donation programs, and more clearly differentiate humanitarian aid from market development programs. It's a complicated hodgepodge at the moment, and some streamlining will make the programs more transparent to our domestic audiences as well as to our trading partners and countries that need assistance.

  - ❖ Our donation programs need to be more consistent from year to year, and they should be non-commodity specific. That is, a country that needs food aid should not have to beg, nor to wait and wonder, nor should they be given a commodity they do not need.
  - ❖ We need better documentation to confirm that the aid is not interfering with local commercial markets in the countries to which aid is given.

- The primary objective of commercial export credit guarantee programs administered by the U.S. Department of Agriculture is to facilitate trade with countries that do not have access to adequate commercial credit. Our competitors have complained loud and long about these credit programs. They call them unfair trade subsidies and demand that the programs be scaled back. I couldn't disagree more. The U.S. should do <u>more</u> -- not less -- to provide credit to the markets that most need it, while meeting its obligations under global trade rules. Rather than scaling back the credit programs, we need to put more flexibility into them.
  - ❖ GSM is a great program for countries with strong banking sectors. Unfortunately, that excludes much of the developing world, which are also the emerging markets for wheat. The Supplier Credit Guarantee Program, providing credit guarantees for sales financed by importers rather than banks in countries where the banking sector may not be completely stable, is a great idea for small shipments, but it needs to be modified to suit bulk commodities.
  - ❖ Rather than scaling back the credit programs, as demanded by our competitors, we need to broaden them to the extent that they will include emerging markets. Yes, there is some risk in providing credit guarantees to these markets. But we urge USDA and other agencies to take a chance on the countries that are trying very hard to enter the global marketplace.
  - ❖ One thing we should look at is developing a range of guarantee rates, adjusted to meet the situation. The coverage and the length of terms should be flexible, depending on the size of the purchase, the credit record of the purchaser, and the future earnings of the importer. In other words, the U.S. government should use the same credit worthiness assessments and tools that are recognized globally in the banking sectors. Or, even better, the USDA could rely on the appropriate banks to help identify and rate foreign partners, and to recommend terms that would meet the needs of the buyer and the seller.
- The wheat industry supports, and needs, aggressive funding for the Foreign Market Development (FMD) program and the Market Access Program. The largest source of funding, and the most important single tool, for U.S. Wheat Associates activities is FMD, which provides around $6 million to USW for office space, overseas salaries and activity budgets for 15 offices servicing over 100 countries. In recent years, in spite of rising costs, total funding for FMD has remained static at about $30 million. This program, which is so vital to many cooperator groups, should be increased to no less than $43.25 million. The second most important federal program providing funds to USW is the Market Access Program, which has been an invaluable tool for building markets. MAP funds, though accounting for less than 10% of the USW budget, are essential as we develop consumer promotion and educational programs. Funding for MAP has been reduced over recent years despite increased promotion activity by our competitors. The wheat industry urges Congress to increase the budget for MAP to no less than $200 million. Further, any EEP funds that are unused should be redirected to market development.

There is one more important issue that will be facing the U.S. wheat market in coming years. Wheat buyers responsible for purchasing about half of our wheat exports have told us that they do not want to purchase wheat derived from biotechnology. Right now there is no such wheat, popularly known as "GM wheat." In fact, no GM wheat is commercialized anywhere in the world at the moment.

The wheat industry is facing quite a conundrum. We don't want to stand in the path of true beneficial progress, which in fact will come without harm to human health or the environment. But, on the other hand, we can't disregard the needs of customers who aren't ready to accept it, and we cannot afford to cede that market share to anyone.

So the U.S. has a nice bit of work in front of it. The wheat industry, grain trade and the U.S. government have to work together to:

- Ensure that internationally accepted tolerances are set before the first GM wheat seed is sold. There can be no mix-ups where ships are turned back because of adventitious mixtures.
- Ensure grain handling systems can provide the wheat the customer wants, within those tolerances.
- Devise a protocol for providing certification for non-GM wheat.
- Most of all, we have to listen to our customers and put their needs first.

In 1995 USDA set a goal of increasing U.S. agricultural exports 50 percent by the year 2000. Such an increase would have added nearly $45 billion to the U.S. export total and would have created as many as 500,000 new jobs. However, this goal did not foresee the Asian economic crisis and the devastation that would engulf agricultural trade. We believe that with the support of Congress in the areas I have mentioned, and a solid commitment to being a world leader for free and fair trade, American agriculture can continue to lead world trade and meet the goal set by USDA in the near future.

In a dynamic, competitive world market, we need to strengthen the programs that will enable agriculture market development organizations to continue this partnership between Congress, USDA and the industry to maintain a growing market share in an extremely competitive world market.

I thank you for the opportunity to present our perspective and I am available to answer your questions at the appropriate time.

USA RICE FEDERATION

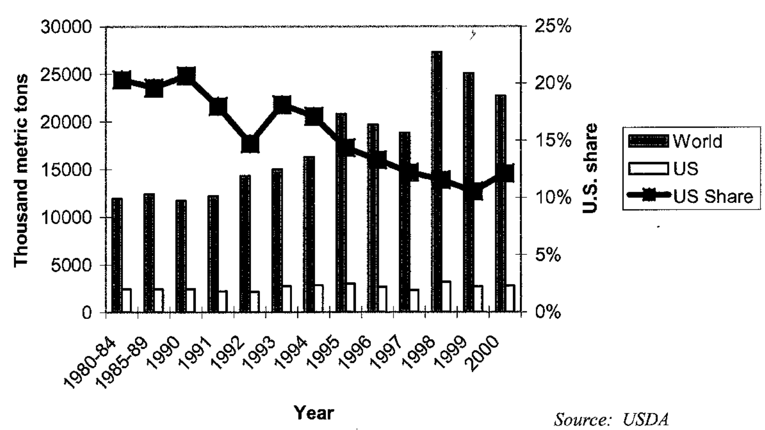
Testimony of the USA Rice Federation
by Carl Brothers, Riceland Foods, Inc.
"Export Market Share"

Subcommittee on Production and Price Competitiveness,
Committee on Agriculture, Nutrition and Forestry
U.S. Senate, August 1, 2001

Mr. Chairman, members of the Subcommittee, I am Carl Brothers, Senior Vice President for International Business of Riceland Foods, Inc., located in Stuttgart, Arkansas. Riceland is a farmer-owned cooperative that markets rice, soybeans and wheat grown by its 9,000 members. It is the nation's largest miller and marketer of rice, one of the nation's ten largest grain companies and a major soybean processor in the South. Riceland markets products in more than 50 countries in North America, Europe, Latin America, the Middle East, Africa and Asia.

I am pleased to testify this morning on behalf of the USA Rice Federation on the topic of export market share for U.S. rice. USA Rice is a federation of U.S. rice producers, millers and allied businesses working together to address common challenges, advocate collective interests, and create opportunities to strengthen the long-term economic viability of the U.S. rice industry. USA Rice members are active in all major rice-producing states: Arkansas, California, Florida, Louisiana, Mississippi, Missouri, and Texas. The U.S. Rice Producers' Group, USA Rice Council and the Rice Millers' Association are charter members of the USA Rice Federation.

World and U.S. Rice Exports and U.S. Share



Source: USDA

The Subcommittee's examination of export market share for U.S. rice is important and timely since exports represent between 45 and 50 percent of domestic production. U.S. high-quality rice has typically enjoyed success in world markets. From 1960 through 1990, U.S. rice averaged a 20-percent world market share. The 1990s have not been kind to our industry, however. The U.S. share of world rice trade averaged just 14 percent from 1990 to 2000, and USDA's current baseline projects a further decline to less than 10 percent in the current decade.

Why has U.S. Rice Lost Export Market Share?

World rice trade more than doubled in the 1990s, but U.S. exports grew by just 14 percent. Competitive suppliers like China, Vietnam, India, and Thailand captured the lion's share of growth, due largely to the locational advantage of these suppliers to growth markets in East Asia, the Middle East and parts of Africa.

U.S. performance was also hampered by economic and foreign policy sanctions that denied access to former top markets and a host of tariff and non tariff barriers that continued, despite the progress made in the Uruguay Round, to keep competitive U.S. rice out of foreign markets.

U.S rice exports in the 2000/01 marketing year that ended July 31, 2001, are estimated at 2.65 million metric tons, representing just under 45 percent of last year's production. This export figure represents an 11-percent market share, consistent with the trend of the last several years, but well below the 20-percent average U.S. export market share in 1960-1990.

Trade sanctions close markets. Trade sanctions have caused more harm to the U.S. rice industry than any other commodity group. Cuba, Iran, and Iraq were each the largest export market for rice at one time, but they effectively have been shut off. Steps towards trade sanctions reform, as contained in the Trade Sanctions Reform Act of last year, are just now being implemented. While the rice industry believes more needs to be done in this area, particularly as regards Cuba, we view sanctions reforms as a step in the right direction to return Cuba and other sanctioned markets to U.S. rice.

Nearly all of Cuba's rice imports were from the United States prior to the imposition of U.S. economic sanctions. After sanctions were imposed, Cuba continued to import large quantities of rice, but primarily lower quality rice from East Asian countries.

Since 1962, Cuba has imported 8.5 million metric tons of rice, none of which came from the United States. Using U.S. prices at time of annual shipments, the value of these Cuban imports would have been $3.1 billion if exported from the United States. If annual rice consumption in Cuba were allowed to attain its full potential; and assuming a modest increase in domestic rice production, Riceland Foods believes annual imports of milled rice would be between 550,000 and 600,000 tons. We also believe, if sanctions were removed, nearly all of these imports would originate from the U.S. due to freight advantages and quality preferences.

Exports of U.S. rice to Cuba of this magnitude would be equivalent to 20 percent of our total annual exports of rice during recent years. It would result in Cuba challenging Mexico as the leading, single-country export market for U.S. rice.

The value of Cuba's rice imports would range between $130 million and $175 million, depending upon quality and transportation costs. An increase of exports of this magnitude would have an extremely favorable impact on the U.S. rice industry. It would provide a modest price increase for the rice produced by our growers, but equally important, it would enhance employment opportunities in drying, milling, and transporting, and for those providing supplies to the rice industry. Needless to say, these sales would also boost U.S. world market share.

During the 1980s, U.S. sales to Iraq averaged 345,000 tons annually, but vanished due to trade sanctions. In the late 1970s, Iran was the top market for U.S. rice, but purchases ended when the Shah was replaced by a new regime. By the mid-1990s, Iran briefly re-emerged as a top U.S. market, with sales of approximately 220,000 tons annually. U.S. economic sanctions shortly thereafter closed this market to U.S. rice. Iran's total rice imports have grown to 1.4 million tons today, and these imports are supplied by Thailand and Vietnam. Under the oil-for-food program, Iraq is currently importing one million tons of rice from Thailand, Vietnam, and China. Riceland has provided small quantities of rice to Iraq as part of the oil-for-food program.

The total size of these three markets is 2.85 million metric tons of rice, close to total U.S. rice exports in 2000. These three markets were the backbone of the U.S. rice industry for many years, and their loss contributes significantly to the current U.S export share.

High level of domestic support lead to import protection. Rice is the most heavily supported commodity among the high-income countries that make up the Organization for Economic Cooperation and Development, largely due to rice policies in Japan and South Korea. Japan's support level for rice is still about five times the world market price. This support is generally provided in a trade-distorting manner, whereby import protection is provided in order to maintain a high domestic price for rice.

High tariffs and differential tariffs severely limit U.S. rice. Despite the real and substantial progress of the Uruguay Round, U.S. rice exporters continue to face high duties in key markets; discriminatory duties that favor one type of rice over another and thus override market signals; and non tariff barriers like reference prices and price bands that have the effect of discouraging rice imports.

U.S. rice exported to Japan, for example, above Japan's tariff rate quota faces an effective duty of 1,000 percent. Rice imported within the tariff rate quota also carries an extremely high effective duty of approximately 900 percent. Additionally, Japan's import system, managed by its Food Agency, results in the majority of American rice being stockpiled or processed into unrecognizable, lower valued items. Today, only one-

half of one percent of U.S. rice exports to Japan can reach grocery stores shelves to be marketed as U.S. product. While Japan is the U.S.'s number one export market by value ($120 million in 2000), our future growth is constrained until further reform by Japan.

In the European Union, high duties on fully milled (white) rice and rough (paddy) rice make U.S. exports of these types of rice to the region uneconomical. Although we do ship brown rice to the EU, the duties we face are high, and they protect domestic rice production.

Many countries in Latin America, Europe, and Africa place discriminatory tariffs on milled rice imports to protect domestic milling industries. U.S. rough, or paddy rice, exports benefit, but the U.S. milling sector suffers as foreign milled rice markets are closed and milling value for U.S. rough rice is added overseas rather than at home. While Riceland exports all forms of rice, these discriminatory tariffs distort normal commercial buying decisions.

The tariff differences are extreme – the duty on rough rice is zero in Jamaica but 25 percent for milled rice. The import duties in Honduras are one percent for rough and 45 percent for milled rice. In Cote d'Ivoire, the rates are zero and 15 percent. And in Turkey, rough rice faces a 27 percent duty versus 35 percent for milled rice imports.

Trade agreements help U.S. rice exports. If there are any doubts that tariffs and non-tariff barriers like monopoly government importing agencies disadvantage U.S. rice, then we need only look at the North American Free Trade Agreement to put these to rest. Because of NAFTA, import duties on all U.S. rice have been declining and will drop to zero on January 1, 2003, and the private sector, not the Mexican government, makes import decisions on rice and other agricultural commodities.

The impact of NAFTA on U.S. rice sales has been dramatic and impressive. At the beginning of the 1990s, U.S. rice sales to Mexico were less than 100,000 tons. In marketing year 1999/00, U.S. exports had surged to nearly 400,000 tons (rough rice basis), making Mexico the number one export destination by quantity. U.S. sales account for 92 percent of Mexico's rice imports, and 48 percent of all rice consumed in Mexico comes from the United States.

We would hope that, just as with the NAFTA, negotiations for a Free Trade Area of the Americas will result in an expansion of U.S. rice exports to Central and South America.

Food Aid Initiative Critical for U.S. Rice Industry

Food aid has traditionally been an important component of rice exports, accounting for up to 20 percent of exports in recent years. While the rice industry works towards a level playing field in foreign markets and the removal of U.S. economic sanctions, food aid is an important support of the export infrastructure of our industry;

providing needed jobs and income to rural communities and giving humanitarian assistance to those in need overseas.

I am joined in Washington this week, Mr. Chairman, by my colleagues in the milling industry and rice producers to press for immediate assistance to our industry in the form of a presidential food aid initiative for 500,000 tons of rice. Food aid movements planned for fiscal year 2001 are about 250,000 metric tons. This is only about half of what moved in fiscal year 2000, and significantly less than fiscal year 1999. This fall off in activity is particularly serious in the southern-most rice producing regions, where an estimated 75 percent of the business of rice mills is in food aid.

Senator Lincoln of this Subcommittee and Senator Hutchinson of the full Committee have signed a letter to President Bush, along with other Senators from rice producing states, urging such an initiative, and the rice industry is thankful for their support. A similar letter has also been sent from the House of Representatives.

We are currently meeting with your colleagues on Capitol Hill and with the administration to move this initiative forward.

Trade Policy, Sanctions Developments will Affect Future Exports

We can continue throughout this decade to expect competitive pressure from Asian rice producers as the quality of rice produced in this region increases and exporters seek to take advantage of lower costs in the region. However, we would note that current long-term USDA forecasts of U.S. rice exports and export market share assume no changes in current domestic or trade policies affecting U.S. and world rice trade. There is no provision, for example, for any benefit to U.S. rice exports when China and Taiwan join the WTO, which is widely anticipated to occur late this year or in early 2001. We are especially optimistic of success in exporting U.S. rice to Taiwan following WTO accession.

Additionally, no provision is provided for an improvement in constraints like sanctions and other trade barriers that I outlined above. Opening of the Cuba market; or reform in the EU or Japan; or the elimination of differential duties in Latin America would have real, substantial, and positive impacts on U.S. rice exports and market share.

Aggressive Trade Negotiations, TPA, and Food Aid are Critical

The U.S. rice industry has a substantial amount of work ahead of it in international markets. We must continue to trade on the hallmarks of U.S. rice on the world market -- high quality and delivery reliability. We must also use wisely the trade promotion dollars that are made available to our industry through activities like the foreign market development and market access programs, and continue to ensure that adequate food aid resources from the U.S. government are available so that the maximum amount of rice can be programmed to fight world hunger.

But we cannot prevail alone. The rice industry needs immediate relief through the food aid initiative I mentioned previously. The rice industry must also have full relief from economic sanctions. I urge you, Mr. Chairman, and other members of the Subcommittee to continue the advances of the last Congress in allowing U.S. rice producers and exporters to sell to sanctioned countries, especially to Cuba.

Additionally, the administration, through its trade negotiators, and Congress, through its support of trade reform, must help us by enforcing trade agreements we have with other countries; negotiating new agreements that open access for U.S. rice; and prohibiting export subsidies and placing disciplines on state-trading enterprises.

In addition to greatly improving market access, it is critical in current WTO negotiations to achieve substantial reductions in other countries' export subsidies and domestic support such that our producers can compete on a level playing field. We can only improve American agriculture's future if the negotiations bring levels of protection to an equitable basis.

In conclusion Mr. Chairman and members of the Subcommittee, I want to strongly urge you, on behalf of the U.S. rice industry, to support a rice food aid initiative, to lift economic trade sanctions, and to support the President's request for trade promotion authority. Well-negotiated agreements that are consistently and strongly enforced are critical to U.S. rice producers and millers. There simply is no other option than open and vibrant foreign markets for the long-term economic vitality of the U.S. rice industry.

KENT CONRAD
NORTH DAKOTA
202-224-2043

COMMITTEES
AGRICULTURE, NUTRITION, AND FORESTRY
FINANCE
BUDGET
INDIAN AFFAIRS

United States Senate
WASHINGTON, DC 20510-3403

April 24, 2001

Mr. Keith Collins
Chief Economist
U.S. Department of Agriculture
Room 112-A Whitten Building
Washington, D.C. 20250

Dear Mr. Collins:

I am writing to seek additional information regarding the Department's *Agricultural Baseline Projections to 2010.*

First, let me commend you for the professionalism that is regularly reflected in the annual baseline document. The publication is always helpful, and this year's projections are particularly useful to those of us on the Agriculture and Budget committees who are attempting to develop a budget resolution that includes a well-reasoned spending request for agriculture.

My reason for writing to you is to request more detailed information on the Department's export projections over the next 10 years, and specifically how those projections would translate, if realized, into U.S. export market share. As you know, U.S. market share has been trending downward for the past 20 years or so, and my concern is that this trend is likely to continue even as the Department projects annual increases in export values. It is important for us as policymakers to know whether our market share is actually increasing as our export values rise, or whether a rising tide of world agricultural trade is merely lifting U.S. export values as it obscures an erosion in U.S. market share.

It is also appropriate that we keep a special focus on U.S. market share given the fact that the Department has determined that one of its key performance indicators under its strategic plan will be a steadily increasing U.S. share of world agricultural trade.

I would appreciate receiving the additional information on market share as it relates to total U.S. agricultural exports, as well as to the major categories of exported products included in Table 37 of the *Agricultural Baseline Projections to 2010.*

Finally, I would urge the Department to consider including such market share data in its future baseline projections.

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Page Two

I appreciate your attention to this request, and I look forward to your response.

Thank you.

Sincerely,

KENT CONRAD
United States Senate

USDA

MAY 2 3 2001

The Honorable Kent Conrad
United States Senate
530 Hart Senate Office Building
Washington, D.C. 20510-3403

Dear Senator Conrad:

Thank you for your compliments toward, and interest in, USDA's *Agricultural Baseline Projections to 2010.*

Your letter of April 24 requested some additional information on the projected market share for U.S. exports. The table on the next page summarizes USDA's market share projections for coarse grains, corn, sorghum, barley, wheat, rice, cotton, soybeans, soybean meal, and soybean oil. Since trade projections for meats, horticultural commodities, and other high-value products are not made for the world as a whole, market shares for those commodities are not available.

USDA's baseline projects no change in the U.S. market share for wheat and a slight decline for coarse grains, cotton, soybeans, and soybean meal. A somewhat more substantial decline is projected for rice. USDA believes that much of the erosion of market share for the commodities identified will occur as a result of increased competition. Nonetheless, with growing global agricultural trade in the baseline, gains in volume and value are projected for all these crops except rice.

However, it should be pointed out that USDA's projections assume that current law, including trade agreements, are unchanged through 2010. Thus, our baseline projections are made without incorporating: (1) WTO accession by China or Taiwan; (2) a reduction of trade barriers resulting from a new WTO round of trade negotiations; (3) any change in the European Union's agricultural policies; or (4) any additional bilateral or multilateral trade agreements completed by the United States, such as the Free Trade Area of the Americas.

Sincerely,

Keith Collins

Keith Collins
Chief Economist

Enclosure

U.S. trade shares of selected commodities, baseline projections

Commodity	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
						Percent						
Coarse grains	54.8	62.9	62.5	61.0	59.9	59.7	59.5	59.5	59.4	59.3	58.9	59.0
Corn	67.4	79.7	77.7	75.8	74.5	74.1	73.7	73.6	73.1	72.6	71.9	71.8
Sorghum	81.0	82.3	84.6	86.0	85.4	85.7	86.4	87.1	87.9	88.8	89.6	90.4
Barley	3.8	4.1	8.1	8.0	7.8	7.6	7.5	7.3	7.1	7.0	6.8	6.7
Wheat	27.5	29.0	29.1	29.1	28.5	28.7	28.9	29.0	29.0	29.0	29.6	29.5
Rice	11.8	10.0	10.1	9.7	9.2	8.7	8.1	7.8	7.3	6.6	6.1	5.7
Cotton	24.8	28.4	29.2	29.9	29.7	29.4	29.3	29.2	29.0	28.8	28.6	28.3
Soybeans	57.0	58.0	58.3	59.2	59.9	59.1	58.1	57.0	56.7	55.7	55.7	55.2
Soybean meal	17.5	16.7	16.7	17.4	17.6	17.5	17.3	17.1	16.9	16.8	16.5	16.3
Soybean oil	8.7	11.4	12.1	13.1	13.8	14.4	14.1	13.8	13.7	13.5	13.4	13.3

Source: *Agricultural Baseline Projections to 2010*, U.S. Department of Agriculture, Office of the Chief Economist

DOCUMENTS SUBMITTED FOR THE RECORD

AUGUST 1, 2001

Max Baucus

Statement of Senator Baucus
Senate Committee on Agriculture, Forestry and Nutrition
August 1, 2001

Mr. Chairman, I thank you for holding this important hearing on US agricultural market share. I'd also like to thank our panelists for appearing here today to share their thoughts with us.

As countries across the globe continue to open up their markets, the expansion of agricultural exports has become an economic necessity to our nation's farmers. And with nearly 20 percent of employed Montanans working in farming and ranching related jobs, agricultural exports are critical to my state's economy.

The USDA states that roughly one-quarter of agricultural income comes from exports. Production from over a third of harvested acreage is exported. This means 30% of wheat and 40% of rice acreage goes overseas. However, we must continually work to expand and diversify these markets. This means beating the competition put forth by our trading partners. Take for example the marketing tactics used by the Canadian wheat board or the questionable export subsidies so widely utilized by the European Union. If we sit back and act complacent, America's marketshare will continue to diminish.

Our agricultural industry cannot afford to fall behind in the game. By investing in and continuing support of our ag export programs, we are investing in the future of American agriculture. For example, when our wheat farmers achieve a foothold in a new market or expanding their existing market share in another, it affects their bottom line -- increasing their profits.

Both the Market Access Program and the Foreign Market Development Program provide American producers with a greater number of export opportunities and counter some of the effects of unfair foreign trade practices. These programs work in conjunction with the private sector to provide partial federal funding for the costs of overseas market research, consumer promotion and technical assistance.

A very important point needs to be made here: this is not simple export subsidy. Government money is not used to artificially lower prices and distort trade through these programs. Now I know that almost everyone in the agricultural community is concerned about the whole WTO green/amber box issue. In my mind there is no doubt that the Market Access Program and the Foreign Market Development Program are both firmly in the "green box" category. These tools have become a regular part of our marketing strategy and should be continued by any and all means.

My producers have fallen on hard times in the past few years. Unprecedented price drops and three consecutive years of drought have really hurt Montana agriculture. We must continue to get help to the producers who so badly need it. In addition to supporting our producers in the short term, we've got to also start thinking long-term. Increasing our export market share plays an integral role in the endeavor.

Mr. Chairman, we must increase our world export market share. There is no question that this is rapidly becoming an economic necessity for American agriculture. The markets for American producers are out there. We've just got to do more to acquire them. I look forward to working with you in addressing this and other issues as we revise the 1996 Farm Bill.

WRITTEN TESTIMONY

OF

MR. PHILIP SENG

PRESIDENT AND CEO

U.S. MEAT EXPORT FEDERATION

TO

THE SENATE SUBCOMMITTEE
ON
PRODUCTION AND PRICE COMPETITIVENESS
OF THE
AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE

AUGUST 1, 2001

TESTIMONY ON BEHALF OF THE US MEAT EXPORT FEDERATION

Mr. Chairman, members of the subcommittee, thank you for inviting the U.S. Meat Export Federation (USMEF) to submit comments with regard to trade in red meat products. The U.S. Meat Export Federation is the international trade association responsible for identifying and developing international markets for U.S. beef, pork, lamb, veal and processed meats.

USMEF is unique in the agricultural world. The diversity of its members and the array of products and services offered are promoted under the umbrella of the Federation, allowing a united front to combat the challenge of international competition. USMEF's membership base has expanded from its original beef and pork producing members to include meat packers, processors, purveyors, traders, agribusiness, feedgrain and oilseed producers, farm organizations and sheep producers. Today there are over 200 members contributing to the efforts of the Federation.

Summary

U.S. red meat exports have been doing very well over the past few years. This is true despite a number of obstacles, including the European Union's continued refusal to abide by the WTO ruling and open its market to U.S. produced beef; a strong U.S. dollar; increased competition from Australia, Canada, Brazil, Argentina, and subsidized EU exports; and, the continued closure of some markets due to unwarranted health or SPS regulations.

The Federation's export efforts have led to significant increases in U.S. market share for beef and pork. In 1990 we held 14.4 percent of the world's beef market (volume basis). By 1995 this increased to 20.5 percent, and by 2000 we increased to 25.7 percent. The results are even more impressive for pork. In 1990 we held 10 percent of the world's pork market. By 1995 this increased to 17.1 percent, and by 2000 we increased to 20.3 percent.

It is important to remember that last year world red meat consumption grew 1.43 mmt, but only 10,000 mt of that came from U.S. increased demand. It is evident that the world market will only grow in importance to the hog and cattle producers of this country.

The recent outbreaks of and spread of animal diseases such as Foot and Mouth, BSE, and Classical Swine Fever have altered trade patterns and made prediction of future trade trends difficult. In 2000, BSE outbreaks were reported across the European Union, apparently the result of EU cattle consuming tainted meat and bone meal imported from the United Kingdom. While EU officials worked to contain the outbreak, major beef importing countries banned European beef imports and reviewed their own BSE control

mechanisms. As of March 2001, more than 50 countries had placed bans on EU beef. For the EU, the most important markets to ban their beef include Egypt, Saudi Arabia, several Middle East countries, and the Philippines. These countries have historically accounted for 37 percent of EU beef exports. The only major market left for the EU is Russia, who generally accounts for 42 percent of EU beef exports.

In addition, the recent (July 27, 2001) triggering of the Japanese import safeguard will limit further sales of pork to Japan until at least the spring of next year. In fact, today is the first day that the safeguard will be enforced. The safeguard mechanism is triggered when the cumulative quantity of pork imports on a quarterly basis exceeds that of the average level of imports in the corresponding quarters over the past three Japan fiscal years by 19 percent. The safeguard was last triggered after imports surged in the first two months of JFY 1996. The safeguard mechanism in the form of the higher gate price was implemented on July 1 of that year and remained in effect until the end of March 1997.

The safeguard increases the pork import gate price from 524 yen/kg. ($1.93/lb.) to 653 yen/kg. ($2.41/lb.). Pork products entering Japan at less than the gate price pay a duty equal to the difference between the gate price and the CIF price, plus a 4.3% *ad valorem* duty. Products entering above the gate price level pay only the 4.3% duty, creating an incentive to exporters and importers to structure shipments with an average CIF value at or above the gate price. A higher minimum import price created by the safeguard will make it more difficult to structure shipments to meet the gate price, and is also likely to raise wholesale prices. The higher minimum import prices will remain in effect for the remainder of the Japan's fiscal year through March 31, 2002.

Even with the above constraints, the U.S. has shown a consistent increase in exports and in market share of red meats and variety meats. Growth in U.S. export volumes and the increase in market share certainly has been a team effort. USMEF, hog and cattle producers, and the processing and export trade could not operate as efficiently and certainly not as effectively without the assistance of the USDA. The Foreign Agricultural Service (FAS) supplies in-country expertise and helps to open new markets through trade negotiations, while the Food Safety and Inspection Service assists packers to meet foreign standards for processing faculties.

Of critical importance to USMEF is the assistance provided through the Market Access Program (MAP) and the Foreign Market Development (FMD) and Emerging Market programs of FAS. Without this assistance, we would be significantly impaired in our ability to open and develop markets overseas.

U.S. Exports of Pork and Pork Variety Meats

USMEF anticipates strong export demand and increased exports for pork through 2007. For 2001, USMEF expects pork and pork variety meat exports to increase 17 percent with most of the growth occurring in Japan, Mexico, Russia, and China. USMEF estimates

that these same four markets will account for 75 percent of the expected growth through 2007. Overall, USMEF expects pork and pork variety meat demand driven exports to average 10 percent annual growth from 2001 to 2007.

In 2000, U.S. pork and pork variety meat exports reached a new record 568,643 mt, at a value of $1.3 billion. Pork exports accounted for 8.1 percent of domestic production in 2000 compared to 5.5 percent in 1995 and 2.9 percent in 1990. In 1990 the U.S. was a net importer of pork, and today we are a net exporter.

It is important to differentiate between a mature market and market segments. For example, some would consider Japan a mature market for U.S. pork and beef exports. However, we continue to see growth in Japan imports due to the servicing of new market segments. For example, U.S. pork has made significant inroads into the Japanese *tonkatsu* (pork cutlet) market. Although the Japanese have enjoyed *tonkatsu* for many years, USMEF promotions and the quality of U.S. pork have allowed us to recently enter this segment of the restaurant industry.

The competitive strengths of the U.S. pork industry in world markets continue to be:

- the ability of the U.S. to supply large volumes of chilled pork by cut and product;
- recognition by the international trade that the U.S. has the strictest food safety system in the world; and,
- the ability of the red meat industry to deliver a range of products (fresh and processed pork, beef and variety meats) to international buyers.

Pork Competition

The main competitors in the global pork market remain the U.S., Canada and the European Union (EU). In 2000, these three exporters accounted for nearly 88 percent of world exports. Canada, with exports of 591,322 mt, became the largest exporter of pork in the world in 2000. Of the year-on-year Canadian export growth of 107,583 mt, 85,000 mt went to the U.S., Japan and Mexico. Canada also increased exports of variety meats to the U.S., Mexico, and China. Denmark, the largest exporter in the EU, exported 545,263 mt.

Two exporters, Brazil and Australia, substantially increased their exports in 2000. According to the Brazilian, Secretariat of Foreign Trade, Brazil increased its pork exports by 47 percent to 129,271 mt. Most of these exports went to Russia, Argentina, Hong Kong, and China. The USDA attributes these increases to aggressive export promotion, competitive export prices, and improvements in the health and sanitary status of the country. In 2000, Brazil declared a major pork producing region free of Classic Swine Fever. Australia also made great strides in exporting pork in 2000.

In 1999, the Nipah virus outbreak decimated the Malaysia swine herd. In response, the

Singapore government banned the import of live pigs from Malaysia and banned the sale of freshly slaughtered pork. Singapore authorities required that all retail outlets, including the wet markets, keep all meat in chillers. Before the virus outbreak, Malaysia met 80 percent of Singaporean demand for fresh pork. Given this strong demand in Singapore for fresh pork, Australia stepped up shipments of chilled pork. While Australia was a net pork importer before these events, their exports have increased 121 and 30 percent in 1999 and 2000 respectively. Singapore now accounts for 60 percent of their exports. While the opening of the Singapore market to chilled imports made Australia a major player in Southeast Asia, continued growth in Australian pork exports depends on their ability to make inroads into Japan and other Asian markets.

The attached charts and tables indicate current U.S. pork trade and future export projects by the USMEF.

U.S. Exports of Beef and Beef Variety Meats

The major story in the U.S. beef industry for 2000 was strong demand and the expectation of a major herd contraction in 2001. In 2000, U.S. beef exports reached a new record of 1.244 mmt at a value of $3.6 billion. Beef exports accounted for 13.1 percent of domestic production in 2000 compared to 10.5 percent in 1995 and 6.3 percent in 1990.

The total affect of the BSE outbreak in Europe on global beef demand is uncertain. Anecdotal evidence suggests that beef consumption could dip in some of the major export destinations for U.S. beef. That said, USMEF anticipates strong export demand for beef and beef variety meats and increased exports through 2007. For 2001, USMEF expects beef and beef variety meat exports to increase 3 percent with increased exports to Japan, Mexico, and Russia offsetting decreased exports to South Korea. By 2007, USMEF estimates that 70 percent of U.S. beef and beef variety meat exports will go to Japan, Mexico, and South Korea. Overall, USMEF expects U.S. exports to increase by an average of 7 percent a year.

The live trade in cattle between the U.S. and Canada is following a pattern similar to the U.S./Canadian live hog trade. The import of Canadian cattle for immediate slaughter has decreased 30 percent in recent years as Canada has increased its slaughter capacity. Conversely, imports of Canadian feeder cattle have increased 28 percent in both 1999 and 2000 as the Canada lacks the feeding capacity to raise its entire calf crop. Like pork, most analysts expect the U.S. and Canadian beef industries to become more intertwined.

The competitive strengths of the U.S. beef industry in world markets include:

- the high-quality and safe image of U.S. beef;
- increasing global demand for high-quality, grain-fed beef;
- the ability of the U.S. to supply large volumes of chilled beef by cut and product;
- the ability of the red meat industry to deliver a range of products (fresh and processed

pork, beef and variety meats) to international buyers; and,
- the ability of the U.S. to supply large volumes of variety meat items.

Beef Competition

The main competitors in the world beef and beef variety meat markets include the U.S., Australia, Canada, the EU, Argentina, Brazil, and New Zealand. The following table shows the relative production and trade estimates for major beef exporters and expectations for 2001.

Beef Production and Exports from Leading Countries

Country	2000 Production ('000 mt)	2000 Exports ('000 mt)	2001 Production Estimate ('000 mt)	2001 Exports Estimate ('000 mt)
U.S.	9,500	1,225	9,280	1,266
Australia	1,420	1,020	1,390	1,080
European Union	5,470	507	5,500	400
Brazil	4,700	339	4,850	372
Canada	920	447	910	470
New Zealand	432	346	460	372
Argentina	2,140	302	2,170	329

Note: Production estimates for 2001 from USDA/FAS, exports from USDA/FAS, reporting country data, and USMEF estimates.

Overall beef trade, consumption, and production will be essentially the same as in 2000. The USDA expects that reductions in production from the U.S. and Australia will offset gains in production in Brazil, Argentina, and China. USDA expects Europe to have a slight increase in their production in 2001. At this stage, USMEF expects that the Purchase for Destruction and testing regimes will account for 500,000 mt, or nine percent, of European beef production. The USDA also expects increased exports from Canada, Brazil, Argentina, and New Zealand. The largest exporter of beef muscle cuts in the world, Australia, is expected to have stable exports in 2001.

Within Europe, the BSE outbreak has caused a decrease in beef consumption of 10 to 30 percent across the continent. Analysts expect a further drop in consumption of 12 to 15 percent in 2001. While the BSE outbreak has so far been contained to Europe, it has affected overall beef consumption in several important U.S. export markets. Notably, Korean beef consumption has dipped in early 2001 and trade contacts suggest that beef consumption also dropped in Hong Kong and Japan. That said, it is difficult to gauge the long-term affect of the BSE outbreak on Asian consumption and separate recent slumps in demand from seasonal demand contraction that normally occurs at this time of the year and the slowing world economies.

In addition to the BSE outbreak, EU officials are also trying to contain an FMD outbreak

that started in the United Kingdom then spread to Northern Ireland and Continental Europe. This outbreak not only threatened EU beef exports to Russia, the only major export destination that has not placed a full ban on EU beef, it also affected their global pork exports. Sporadic FMD outbreaks also occurred in Japan, South Korea, Brazil, and Argentina. While FMD outbreaks create short-term opportunities to replace Brazilian and Argentine beef, grass-fed beef from Australia gains the most from these situations. In general, U.S. grain-fed beef competes in a different market segment than grass-fed beef. While countries in South America have the natural resources to challenge the U.S. and Australia for the top spot in beef exports, frequent outbreaks of foot-and-mouth disease have resulted in an inconsistent presence in the world market.

U.S. Exports of Lamb and Lamb Variety Meats

Although the U.S. lamb export market is small in volume, it has shown significant growth this past year. U.S. lamb and mutton meat exports have increased 23 percent so far this year (January - May), and lamb variety meats have increased 87 percent (see attached charts).

What Can Congress Do To Further Assist Red Meat Exports

There are several steps that Congress can take to assist in the continued growth of red meat exports. First, it is imperative that USDA be provided the necessary funds to assure that FMD and other animal diseases do not enter the United States. In order to protect our export markets, we must assure our domestic animals remain healthy.

Second, FAS must be provided the resources necessary to continue to promote trade, engage in bilateral and multilateral negotiations, and represent our interests abroad. This includes adequate funding for programs such as MAP, Foreign Market Development, Emerging Market, and other promotional programs of FAS.

Third, the launch of a new WTO round is critical to further reductions in trade distorting subsidies offered by the EU and in the opening of new markets. In addition, we must work to assure implementation of the provisions agreed to in the Uruguay Round.

Conclusion

In summary, USMEF expects growth in U.S. exports of beef and pork for 2001. While the beef herd is contracting, there will be adequate supplies of beef, especially underutilized cuts and variety meats. For pork, the breeding herd expansion that started in late 2000 guarantees adequate supplies. Across the world there is a growing demand for red meat, and this demand will expand as economies recover and per capita incomes increase. The U.S. red meat industry is well positioned to meet this demand and achieve our goals for export growth.

U.S. Market Share of World Trade in Beef and Pork
Source: U.S. Meat Export Federation
Data Source: USDA, UN FAO Trade Stats, includes variety meats

Year	U.S. Share of World Beef Trade (Volume)	U.S. Share of World Beef Trade (Value)	U.S. Share of World Pork Trade (Volume)	U.S. Share of World Pork Trade (Value)
1990	14.4%	21.8%	10.0%	11.0%
1991	14.6%	22.4%	11.3%	10.9%
1992	15.3%	24.5%	16.6%	14.7%
1993	16.0%	25.2%	14.1%	14.0%
1994	17.9%	26.2%	14.2%	13.4%
1995	20.5%	28.7%	17.1%	16.9%
1996	21.6%	29.8%	17.2%	17.6%
1997	20.4%	27.8%	17.6%	20.0%
1998	22.4%	28.0%	19.4%	22.6%
1999	23.8%	29.7%	18.5%	24.6%
2000	25.7%	32.3%	20.3%	22.8%
2001	26.2%	32.9%	23.4%	27.3%
2002	27.8%	34.9%	26.1%	30.5%
2003	29.1%	36.6%	28.5%	33.3%
2004	30.6%	38.4%	30.1%	35.1%
2005	32.2%	40.4%	32.1%	37.4%
2006	33.7%	42.3%	34.0%	39.8%
2007	34.6%	43.4%	35.7%	41.7%

U.S. Exports of Beef, Pork and Variety Meats
1990-2000
Source: USDA

U.S. Exports of Beef plus Beef Variety Meats
Quantity, metric tons

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Japan	272,634	275,239	322,833	349,429	369,562	487,992	515,373	434,145	471,779	509,164	526,264
Mexico	55,857	106,833	109,155	80,314	117,718	54,712	89,332	146,020	187,049	207,959	228,558
Korea	33,124	52,644	59,041	47,702	72,494	104,693	81,206	95,305	57,461	113,635	161,984
Russia	1,231	1,356	289	5,278	23,126	63,442	56,924	63,968	52,180	80,769	48,622
Europe	12,474	6,718	21,794	16,198	22,474	23,152	25,584	28,946	51,658	35,836	35,392
HK/China	4,821	5,696	6,734	8,640	11,725	14,832	22,723	22,582	21,857	23,440	35,757
C/S America	7,893	11,077	13,792	18,761	9,367	13,200	15,380	13,078	23,251	13,831	18,584
Middle East	18,458	9,263	12,569	31,561	26,891	25,497	18,781	31,849	28,807	30,201	36,094
ASEAN	2,489	3,553	4,683	6,535	11,281	14,003	13,479	8,709	2,309	5,292	11,020
Taiwan	2,631	3,353	4,259	4,042	6,386	9,169	10,097	11,035	9,811	13,828	20,768
Caribbean	12,962	14,184	9,525	8,617	7,954	8,735	8,164	9,614	12,022	15,303	11,735
Canada	79,911	101,606	95,430	94,429	108,353	113,410	106,994	104,569	97,657	96,082	98,500
Other	3,624	4,155	3,745	3,332	3,505	4,324	4,151	6,299	9,061	9,955	10,945
Total	**508,109**	**595,677**	**663,849**	**674,838**	**790,836**	**937,161**	**968,188**	**976,119**	**1,024,902**	**1,155,295**	**1,244,223**

U.S. Exports of Beef plus Beef Variety Meats
Value, '000 US$

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Japan	1,170,739	1,178,343	1,490,843	1,564,431	1,625,590	2,113,870	1,931,196	1,637,478	1,584,373	1,717,692	1,785,130
Mexico	112,366	235,493	259,310	163,803	280,936	115,943	198,575	345,339	451,008	512,555	596,168
Korea	116,907	185,671	217,178	162,793	240,203	333,360	254,265	300,557	148,285	343,418	536,933
Russia	797	1,285	922	5,345	23,489	63,249	61,344	67,276	52,840	99,841	44,013
Europe	39,468	26,658	57,836	53,499	59,840	62,004	57,320	59,521	61,162	60,694	44,273
HK/China	15,474	20,609	25,222	27,544	33,504	45,129	67,939	65,553	55,383	60,876	91,536
C/S America	7,150	10,011	13,039	18,147	11,787	17,463	25,800	28,155	43,076	21,797	25,745
Middle East	23,630	15,070	17,156	32,161	25,645	31,700	24,311	34,279	41,012	47,997	39,530
ASEAN	12,997	15,380	16,786	19,809	23,828	26,899	23,858	22,816	10,244	14,902	21,923
Taiwan	13,635	18,469	21,158	21,590	30,619	47,066	46,334	47,957	33,299	50,360	64,134
Caribbean	39,683	35,740	24,926	23,136	21,507	21,946	19,954	24,345	27,631	35,640	31,734
Canada	316,630	395,695	365,079	361,096	375,600	373,071	331,362	317,954	293,912	281,179	308,251
Other	8,251	7,737	6,291	6,342	7,548	8,020	8,626	10,657	11,754	12,579	15,243
Total	**1,877,728**	**2,146,160**	**2,515,747**	**2,459,695**	**2,760,096**	**3,259,719**	**3,050,882**	**2,961,889**	**2,813,980**	**3,259,528**	**3,604,612**

US Exports of Pork plus Pork Variety Meats
Quantity, metric tons

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Japan	46,133	51,094	81,779	83,712	88,723	134,027	183,663	175,731	190,047	201,809	209,758
Mexico	57,024	92,315	97,689	92,212	121,218	65,652	81,984	98,128	113,262	113,984	182,209
Korea	410	1,807	984	1,497	4,685	17,421	11,003	11,512	9,896	19,058	13,913
Russia	1	194	122	16,705	6,181	56,705	28,934	32,909	46,709	48,649	13,094
Europe	19,915	9,108	16,680	5,116	15,962	17,364	15,667	25,583	26,136	13,383	12,004
HK/China	1,565	1,460	1,835	3,795	14,253	29,514	32,565	43,137	48,948	36,881	31,925
C/S America	2,399	4,740	5,601	4,007	4,682	7,620	4,632	6,789	16,249	16,795	12,778
ASEAN	1,141	1,150	1,358	1,588	1,332	2,142	4,798	5,566	4,141	5,271	2,837
Taiwan	88	335	65	129	162	5,756	11,134	2,967	17,893	34,422	25,899
Caribbean	5,673	5,127	3,635	2,614	2,936	4,273	2,798	3,892	7,989	7,863	5,900
Canada	10,118	12,206	11,660	14,883	23,011	20,893	33,220	46,717	43,221	45,450	52,530
Other	2,404	2,109	1,701	1,631	1,833	3,008	3,650	4,792	5,499	6,148	5,796
Total	**146,871**	**181,645**	**223,109**	**227,889**	**284,978**	**364,375**	**414,048**	**457,723**	**529,990**	**549,713**	**568,643**

US Exports of Pork plus Pork Variety Meats
Value, '000 US$

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Japan	241,165	216,564	323,365	346,332	372,846	598,311	757,305	694,643	619,516	658,166	753,876
Mexico	68,860	115,724	120,226	104,259	145,080	72,694	92,453	121,311	142,531	147,939	252,919
Korea	1,484	4,392	3,217	2,491	8,315	32,604	25,176	28,444	20,241	36,541	28,385
Russia	8	240	341	26,077	9,281	82,402	49,273	58,391	79,544	87,198	16,224
Europe	19,426	9,399	18,199	11,821	15,014	17,160	16,219	36,586	42,537	20,084	12,951
HK/China	3,178	3,585	2,564	4,499	16,652	41,899	44,500	61,129	57,914	36,995	36,832
C/S America	3,682	5,867	8,930	6,868	9,155	13,584	9,622	16,299	27,915	29,024	22,629
ASEAN	1,878	1,502	2,551	2,470	3,011	5,272	11,505	13,717	9,215	11,122	7,172
Taiwan	236	550	204	337	683	8,942	15,133	3,407	18,277	43,494	36,792
Caribbean	13,300	11,521	7,734	6,070	6,902	9,726	6,985	10,015	14,473	13,609	10,361
Canada	28,209	31,600	30,260	34,719	42,810	47,812	76,703	109,406	97,452	96,903	124,995
Other	4,905	4,639	4,603	2,727	2,845	4,931	6,005	9,077	10,745	11,410	10,430
Total	**386,331**	**405,584**	**522,195**	**548,670**	**632,594**	**935,338**	**1,110,879**	**1,162,426**	**1,140,361**	**1,192,484**	**1,313,566**

QUESTIONS AND ANSWERS

AUGUST 1, 2001

August 1, 2001
Subcommittee on Price and Competitiveness
Hearing on U.S. Export Market Share
Written Questions Submitted by Senator Pat Roberts

Ms. Sharpless (Acting Administrator - Foreign Agricultural Service - USDA):

1. In your statement, you mentioned that the European Union, our nation's largest agricultural competitor, is on the verge of surpassing the United States as the world's largest agricultural exporter. How must we deliver on our commitment to provide agriculture with a consistent and aggressive? How can we aggressively pursue the world's markets on behalf of our producers?

2. What balance must we achieve on sustaining our current markets and aggressively developing new and emerging markets in order to improve the overall exports of agricultural goods and commodities?

3. Please expand upon the comments made in your testimony on how we harmonize the goals of both our domestic agricultural support policy and an aggressive trade policy.

Mr. Henry Joe Von Tungeln (Chairman - U.S. Wheat Associates):

4. I am particularly interested in the opportunity for U.S. wheat to regain our market share in Asia. You have noted the competition between the United States and Australia, particularly in Korea. Currently, Kansas State University is working closely with the wheat industry to develop new varieties of hard white wheat and to further develop this market opportunity in order to regain and reestablish our market share in Asia. My question is, what role does research and the funding of research play in the market development process?

Mr. Carl Brothers (Sr. V.P. - Riceland Foods)
5. You mentioned the role that food aid plays in developing and promoting your commodity's export share in the world market. Please expand on your earlier comments regarding food assistance efforts and how those efforts promotes export market share.